

Accounting and Operational Technique in State

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Banks of the USSR

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OPERATING PROCEDURE AND ACCOUNTING
IN THE STATE BANK OF THE USSR

Second Revised Edition

Adopted by the Committee for Higher School Affairs
as a textbook for the credit and economic insti-
tutes of the State Bank

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PREFACE TO THE SECOND EDITION

Since the appearance of the first edition of this book in 1940, the accounting and operating work of the State Bank has been enriched by the broad experience in serving the national economy with credit and settlement operations, and in serving the Red Army and Fleet in action with finance office and settlement operations. World War II, victoriously concluded by the heroic Red Army under the inspired leadership of Generalissimo Stalin, confronted the State Bank with a series of tasks, the timely and accurate accomplishment of which was the contribution of the State Bank to the cause of organizing the victory over the foe. These tasks changed with the several stages of the war. The authors of this book had no opportunity to elucidate in it the special branch of wartime banking work - the finance office and settlement service of the Red Army in Action, carried out by means of a network of field agencies of the State Bank, especially set up for that purpose. In this book, only the most important changes in the operating and accounting work during the various stages of the war are reflected, and that only in condensed form.

Changes caused by the war in the settlement operations, the procedure for the reestablishment of bookkeeping operations in connection with evacuation and re-evacuation of State Bank offices and of their clientele, the supplements to the nomenclature of State Bank balance sheet items, the procedure for establishing the losses caused to the State Bank by the German Fascist usurpers --

these are the most important of the new questions elucidated in the present edition. Together with this, the most substantial of the suggestions and critical remarks made with reference to the first edition have also been duly taken into account in this edition.

These considerations required considerable revision and, to some extent, additions as well. The plan of the book has nevertheless been retained, to the extent that, like the first edition, it has been written in accordance with the current syllabus for the course. "Operating Procedure and Accounting in the State Bank" being given by the Institutes of the Credit Economy. Due attention has thus been paid to the sequence of treatment of the related disciplines (Accounting Theory and Organization of Credit and Settlement Operations.) To avoid duplication only slight reference has been made to the economics of banking operations. So as not to increase the bulk of the book, it has been necessary not only to retain the brevity of treatment of a number of questions, which were also condensed in the first edition, but also to subject them to further abbreviation, as well as to dispense with a certain amount of illustrative material. The first chapter has been especially condensed, for even a short description of the historical development of the operating and accounting work of the State Bank had to be left out. Only the most general idea, essential for students of the Credit Faculties, is given of mechanized accounting. A special course is given in this subject by the Accounting Faculties of the State Bank Institutes. In view of the relatively small number of operations connected with capital resources, capi-

tal funds and capital expenditures of the State Bank, discussion of these subjects has been condensed. The theme "Documentary auditing" was not included in the present edition for the reason that a separate brochure Auditing Work in the System of the State Bank USSR was issued in 1949, which treats this subject in detail. On the other hand, special attention has been paid in this book to the strengthening of internal (intra-bank) checks, which assure timely and accurate execution of the operations and completion of the bookkeeping work.

The separate chapters have been written by the following authors:

M. V. Boguslavskiy: V, VII, VIII, IX, XI, XIII, XIV, XVI and XVII;

Ya. B. Greben: III (except for the sections on machine accounting, which have been written by M. V. Boguslavskiy.), X, and XII;

A. A. Proselkov: I, II, IV, VI, XV, XVIII.

Critical suggestions and remarks on the present book are requested. They should be addressed to the Gosfinizdat, Moscow, ulitsa Chernishovskiy,

At the moment the law was promulgated on the transformation of the Council of People's Commissars USSR into the Council of Ministers USSR, and the Councils of People's Commissars of the Union and Autonomous Republics, into the Councils of Ministers of

the Union and Autonomous Republics, respectively, the book had already been completely made up into pages. For technical reasons the corrections by reason of that law could thus not be made in the book. Similarly the changes connected with the subdivision of certain departments were not reflected in the book.

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CHAPTER I

GENERAL CHARACTERISTICS OF THE ACCOUNTING AND OPERATING
WORK OF THE STATE BANK AND THE STRUCTURE OF ITS SYSTEM

I. PRINCIPAL FEATURES IN THE DEVELOPMENT OF THE OPERATING AND
ACCOUNTING WORK OF THE STATE BANK IN RECENT YEARS

"The State Bank is an immense, wide-branching apparatus of our financial system. Its work is of primary importance for the development of the national economy, especially for the development of trade, for the development of the goods turnover, and for supplying both urban and rural areas with manufactured goods and provisions." (V. M. Molotov, Speech before the joint session of the Soviet of the Union and the Council of Nationalities of 15 January 1938. Stenographic report, pp 6-7, Partizdat.)

In view of the immense role of the State Bank in the national economic life of the country, and considering it necessary to endow it with a greater degree of independence, the first session of the Supreme Soviet USSR in January 1938 detached the State Bank from the People's Commissariat of Finance and subordinated it directly to the Sovnarkom of the Union. (According to the decree of 22 May 1946 of the Council of Ministers USSR, the State Bank is assigned to the Minister of Finance USSR, and the Chairman of the Administration of the State Bank is the Vice-Minister of Finance USSR.

The gigantic growth of industry and of the whole national economy, the improvement in the organization and technology of production,

the increase in the productivity of labor on the basis of the further development of the Stakhanovite movement and of the strengthening of labor discipline, and the development of transportation -- all these factors favored the growth of national income, in connection with which the turnover of the State Bank naturally registered a sharp increase as well.

The State Bank as it becomes gradually transferred into an apparatus of general state accounting, must by all of its work encourage the fulfillment of the national economic plan, in exerting its credit influence upon production and distribution. In so doing, the organization of procedure and accounting of State Bank operations must be exemplary to assure the efficiency of its work.

During the period from 1935-1939, a series of Government decrees were successively issued, providing for the reorganization of the operational and accounting work. These included the decree of the SNK USSR of 8 June 1935, "On changes in settlement practice in the inter-city freight turnover"; the law of 4 June 1936, "On changes in the system of financing the turnover of goods"; the decree of the SNK USSR of 29 July 1936, "On bookkeeping work and balance sheets of state and cooperative economic organs and enterprises"; the decree of the SNK USSR of 15 August 1939. "On control over the expenditure of wage funds by budgetary and khozraschet organizations", and others.

World War II demanded the radical reorganization of the national economy for war, so as to render the maximum assistance

to the front and supply it with everything necessary to conquer the hateful foe. Accordingly it was also necessary to introduce a number of changes in the accounting and operating activities of the State Bank.

During World War II the State Bank did an immense amount of work in providing finance office and accounting service for the Red Army and the Fleet, uninterrupted service for evacuated enterprises and institutions, and also service for organizations returning to resume their work in regions freed from the Hitlerite bandits.

From the very beginning of the war, measures were taken to assure the safety of the accounting records in the zone of military activities and in territories close to the front where the danger of air raids and artillery fire was especially great. Instructions were worked out at the same time to govern the procedure for the reconstruction of the accounting records in case of total or partial loss of the documents. This required setting up a separate Section XXVIII on the balance sheet of the State Bank "Settlements for operations with State Bank establishments with accounting records not maintained during the war." And also the setting up of an alternating resource and liability account No 258: "Re-establishment of debits and credits of evacuated State Bank establishments and a series of accounts to reflect the valuables and documents remaining unevacuated from the zone of military operations or destroyed in course of evacuation.

The rear-line offices of the State Bank had to perform a very large amount of accounting and operative work, taking over

the assets and liabilities of the evacuated departments, and also the documents pertaining to the clientele of these evacuated departments, reestablishing their activity at the location of the State Bank office accepting such accounts and documents.

Pursuant to the directive of 4 March 1942 of the SNK USSR, No 229, "On the reestablishment of accounting and reporting in regions liberated from the German-fascist occupiers", special instructions were issued to the localities covering the procedure for reestablishment of accounting and reporting by State Bank offices in the liberated regions.

The manual contained a special chapter devoted to the operative and accounting work in evacuated and ^erevacuated State Bank offices (cf. Chapter XV).

In 1943, pursuant to the instructions of the extraordinary State Commission "to assess the damage caused by the German-fascist usurpers and their accomplices to state, cooperative and public enterprises, institutions and organizations", directives were worked out and issued to the State Bank offices on the procedure for determining the losses caused to the State Bank both in regions temporarily occupied by the enemy and those suffering from enemy air bombardment, artillery fire, etc. Directions for estimating the damage caused to the property of State Bank personnel in consequence of evacuation and revacuation. Details are given in Chapter XV.

The victorious conclusion of the war has placed new tasks before the State Bank, the accomplishment of which will, to a large

extent, depend on the efficient and timely performance of all its operations.

2. THE STRUCTURE OF THE STATE BANK

At the present time the State Bank has the following structure:

At the center is the Head Office [redacted] [redacted] [Administration] of the State Bank, the apparatus of which consists of a number of Departments [Upravleniye]. The republic, Kray and Oblast regional offices of the State Bank are directly subordinated to the Head Office. Each such regional office controls the branches [redacted] in the territory of the Republic, Kray or Oblast in question.

In the separate Republics, Kray and Oblasts there are what are termed Subregional Offices, directly subordinated to the respective Republic, Kray or Oblast Regional Offices. For instance, in the Tadzhik SSR, the following Subregional offices are subordinated to the Republic Regional Office: Gara, Gorno-Badakhshan, Kulyab, Kurgan-Tyubinsk and Leninabad.

The principal reason for having subregional offices is the difficulty of managing all the branches spread over an extensive territory, from the Regional Branch offices -- which are directly under the Head Office -- in the various republics, Kray, and Oblasts.

If there are Okrugs in the Oblast, the branches of the State Bank in each Okrug will be subordinated to the Okrug office, which in turn is subordinated to the Oblast office.

This structure of subordination (the Regional Office being directly subordinated to the Head Office, and the branches to the Regional Office) is very expedient. It allows centralized direction of the whole State Bank system. Without centralized direction the State Bank would not be able to carry out its role of bank of issue, settlement center and only institution for short-term financing.

The Head Office, which directs all the activities of the State Bank, consists of a chairman (with the rights of a Narkow), who is confirmed by the Supreme Soviet of the USSR, a vice-chairman, and members of the board designated by the Sovnarkow USSR.

The Head Office of the State Bank has a number of branch credit departments, corresponding to the branches of the national economy. These departments are charged with working out the credit and settlement service of the corresponding branches of the economy, with the formulation of the credit plan, supervision over the financial and economic condition of the organizations financed, with issuing instructions to the local offices of the State Bank, application of punitive credit measures, etc.

The Head Office apparatus also comprises a Central Economic Planning Department, charged with working out the general questions of credit and settlement operations and the formulation of inclusive credit and cash plans, of the State Bank, surveillance over their fulfillment, and also the compilation of all operative and statistical accounting reports.

The Department of Cash Operations exercises the operational direction and surveillance over the work of the State Bank offices in relation to the fulfillment of their cash plans. It regulates the stocks of currency in circulation in the various Republics, Kray and Oblasts, and determines the extent to which new currency should be placed in circulation, or currency withdrawn from circulation.

The Issue Department works in close cooperation with it. It organizes the safeguarding and allocation of the currency reserve and currency exchange reserve (respectively for placing currency in circulation and withdrawing it from circulation; and for exchange and destruction of worn-out or damaged currency).

The Central Bookkeeping Department organizes the bookkeeping work and operating practice, and issues instructions on accounting matters to the peripheral State Bank establishments. It prepares the consolidated annual bookkeeping reports. The Moscow mechanized accounting factory which handles the accounting for the interbranch transfer and the operations for the Moscow city offices of the State Bank, is subordinated to it. The chief bookkeepers of the Republic, Kray and Oblast Regional Offices are appointed and removed by the Chairman of the Board on the recommendation of the chief bookkeeper of the Head Office.

The Chief Auditor's Department is headed by the Chief Auditor, whose appointment is confirmed by the Sovnarkom USSR on the nomination of the Chairman of the Board of the State Bank. He audits the operations of the Republic, Kray and Oblast Regional

Offices, which are directly subordinated to the Head Office. Where necessary this Department also sends its representatives to audit the local branches of the State Bank. The senior auditors of the Republic, Kray and Oblast regional offices report directly to the Chief Auditor.

The Head Office of the State Bank also has a number of other independent Departments and Sections, which operate on a functional basis: financing export and import organizations and arranging settlements with foreign countries; supervision over the expenditure of wage funds; organizational and estimating work; capital construction for the State Bank offices; furnishing various operating supplies; carrying out building operation and management for the bank; training and assignment of cadre personnel, etc.

A special Department of Field Offices was organized in connection with the provision of banking services for the Red Army in action and the Fleet, during World War II, and handled the organization of such offices together with the issue of instructions to them and doing their auditing, as well as the comprehensive bookkeeping operations for the entire field network.

The Field Network consists of Regional Field Offices, Field Branches and Field Tellers.

The Field Offices of the State Bank handle the cash and accounting services of the military (or naval) units of the Red Army in action and of the Fleet, and also for the Field Post-offices. They provide credit and settlement service for the

field FX's and conduct operations with captured currency and with precious metals, and accept and pay out deposits of military personnel.

The Republic, Kray and Oblast regional offices have what are termed City Departments. These departments carry out all credit and settlement operations for the clientele in the city where the regional office is located.

The regional offices of the State Bank are headed by managers who are appointed and removed by the Head Office.

The structure of the branches depends on the volume of their business. They are headed by managers who are appointed and removed by the Chairman of the Board of the State Bank on the recommendation of Regional Office Managers.

Besides the branches, the network of the State Bank also includes Rayon settlement offices (in Rayons where it is still inexpedient to open branches) and Agencies. The Agency represents the type of what are termed closed offices of the State Bank. Such offices carry out only a limited variety of transactions: accepting labor-union deposits and accounting for them; cash and settlement service for fisheries, etc.

All the State Bank offices we have thus far enumerated have independent balance sheets; the Rayon Settlement Offices and the Agencies, however, use an abbreviated form of balance sheet (abbreviated nomenclature of balance-sheet accounts).

The State Bank system also includes offices that do not have

independent balance sheets. These are the Receiving and Paying Tellers at the Rayispolkoms and the subbranches at Khozorgans and Spetebanks. The Receiving and Paying Tellers at Rayispolkoms are ~~attached~~ principally to the service of the local budgets and operate in those Rayon centers where there is no State Bank branch.

The subbranches, both permanent and seasonal, are opened by the Regional Offices or branches of the State Bank on the basis of contracts with the Khozorgans involved. Pursuant to the decree of 15 September 1924 of the STO, subbranches are maintained entirely at the expense of the Khozorgans, and are staffed by regular personnel of the latter. The permanent subbranches provide the cash service for the Khozorgans to which they are assigned, while the seasonal subbranches are opened at remote inland points to take care of the government purchases of agricultural products, principally of grain and cotton, thereby bringing the apparatus of the State Bank close to the sellers of agricultural products. These subbranches settle in cash with such sellers.

The above mentioned subbranches do not keep a complete system of accounts, but draw up daily statements of receipts and disbursements, and account to the State Bank branch by which they were assigned to the Khozorgan or Zagotpunkt.

In gradually expanding the network, the State Bank USSR is continually improving its service to all branches of the national economy.

3. The operative and settlement relations between the State Bank and the other credit institutions of the USSR.

The Spetsbanki and Gostrudsberkassy are under the jurisdiction of the Narkomfin USSR. There is also the independent Bank for Foreign Trade (Vneshtorgbank), which is a stock company and has the function of carrying out foreign settlements. The interrelations between the State Bank and the long-term investment banks and savings banks are described in detail in Chapter XII. Here we confine ourselves to the general statement that the State Bank provides cash and settlement services for the long-term investment banks, the Gostrudsberkassy and the Vneshtorgbank, accepting and asking payments in cash, or by way of clearing transfers, under their instructions.

Having a considerably more ramified network of offices than the Spetsbanki, the State Bank carries out transactions in many places under their instructions and for their accounts. Such transactions are, as a rule, limited to the amounts of the credit balances in the Spetsbank accounts with the State Bank. In a number of cases, however, as will be seen in Chapter XII, the State Bank allows overdrafts on the accounts of other credit institutions.

CHAPTER II

THE BALANCE SHEET OF THE STATE BANK

I. GENERAL CHARACTERISTICS OF THE STATE BANK BALANCE SHEET

The balance sheet of the State Bank reflects clearly, precisely and fully the condition of its operations as of a given date. Clarity and distinctness in the construction of the balance sheet is of exceedingly great importance not only for the State Bank itself, but also for the entire national economy. This is linked with the role played by the State Bank at the present time, for it is not only the bank of issue and the center of short-term credit but also clearing center for all the branches of the gigantic socialist economy of the USSR. In addition, the State Bank serves the Red Army in action and the Fleet through the network of the field offices, performs the cash service for state and local budgets, undertakes transactions under the instructions and for the account of the banks for long-term investment and the savings banks, and arranges settlements abroad.

The operative and accounting work of the State Bank is organized in such a way that at the end of every working day every independent office of the State Bank draws up a balance sheet of turnovers and balances. Only by means of a daily balance sheet is it possible for these offices properly to conduct the subsequent operations, to pay out money from clearing or current accounts, pay the orders of Khozorgany, make new loans and complete other transactions.

The balance sheet of the State Bank, like that of other enterprises, is divided into resources and liabilities. Resources show the classification of funds according to the criterion of their composition and distribution, while liabilities show the classification of these funds by sources from which received (formation) and designated purpose.

The currently adopted system of balance-sheet nomenclature consists of items that contain the basic data necessary for the operative planning and regulation of all the activities of the State Bank.

At the same time the balance sheet of the State Bank is a most important implement of control over its credit, operative and accounting work. The balance sheet shows the credit investments made by the Bank, broken down into departments and branches, the condition of past-due obligations, the resources of the economy in clearings, etc. By the aid of the balance-sheet the current accounting of all operations is checked; i.e. it furnishes a verification of the accuracy with which the analytic accounting has been carried out.

Each independent office of the State Bank -- Regional Office, Branch, Rayon Clearing Office, Agency -- draws up its own annual balance sheet. The consolidated annual balance sheets of all State Bank offices in a Republic, kray or Oblast are prepared by the respective Regional Offices controlling all the offices on the territory in question. The Head Office of the State Bank prepares the consolidated annual balance sheet for the Bank as a whole.

The balance sheet of the State Bank consolidates in its accounts the synthetic (additive) data on its activity, and makes it possible to judge the results of operations both of the separate offices -- Regional Offices, Branches, Rayon clearing offices, Agencies -- and of the Bank as a whole (from the consolidated balance sheet).

At the present time the current balance-sheet nomenclature consists of over 200 balance-sheet accounts and 72 non-balance-sheet accounts.

Both balance-sheet and non-balance-sheet accounts are classified into separate sections. There are 28 such sections for balance-sheet accounts, and 18 sections for non-balance-sheet items.

The balance-sheet accounts of all sections are classified by economic criteria. In other words, each group comprises transactions of more or less uniform economic content.

Section VII of the balance sheet -- "Short-term credit and settlement operations" -- is in addition, constructed according to the government department involved, while Section XIII -- "Settlements with Credit Institutions of the USSR" -- is in addition constructed according to the correspondent involved.

2. THE CLASSIFICATION OF BALANCE-SHEET ACCOUNTS

Let us now take up the content of the balance-sheet groups, and consider the detailed criteria of account classification ac-

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ording to groups.

Group I of the balance-sheet comprises all funds of the State Bank, comprising statutory and reserve funds, fixed assets, depreciation fund and special funds -- for instance, for paying premiums to the personnel of State Bank Offices for excellent work indices in socialist competition.

Group II "Banknotes placed in circulation" covers the banknotes issued by the State Bank.

Group III "Accounts with the NKf USSR for treasury notes and coins placed in circulation" reflects the issue and circulation of treasury notes and fractional currency, as well as accounts with the NKf USSR for coins issued.

Group IV "Monetary Resources" contains the accounts recording the amounts of monetary resources on hand in the cash turnover funds of the Regional Offices, Branches, Rayon Settlement Offices, and also of the Subbranches of the State Bank. It also includes the accounts in which the amounts of currency shipments in transit for replenishment and withdrawal to and from all such offices are entered.

Group V "Precious Metals" is used for the recording of the gold, silver and other precious metals belonging to the State Bank.

Group VI "Foreign Currency and Accounts for Foreign Operations", contains all of the accounts recording: foreign currency; foreign bills (promissory notes in foreign currency, payable abroad)

and drafts in foreign currency; current accounts and deposits in foreign currency; accounts with foreign banks in foreign and Soviet currency; unpaid foreign transfers; and also accounts in foreign currency with clients.

Group VII "Short-term credit and clearing operations" contains the clearing, loan and current accounts of enterprises and institutions, departments and organizations. The loan accounts reflect the granting and liquidation of short-term^{loans} (not past-due), while the clearing and current accounts record the disposable funds of enterprises, institutions and organizations, as well as the settlements between them.

In this group of the balance sheet, as a rule, two balance-sheet accounts are opened for the enterprises of each Narkomat: One a liability account-- the clearing account -- and one a resource account -- the loan account. For instance: (1) Account No 38 "Enterprises of the Narkomat of Heavy Machine Building: Clearing Accounts" and (2) Account No 39 "Enterprises of the Narkomat of Heavy Machine Building: Loan Accounts"; or (1) Account No 52. "Enterprises of the Narkomate of Textile Industry: Clearing Accounts" and (2) Account No 53. "Enterprises of the Narkomat of Textile Industry: Loan Accounts."

Group VII of the balance sheet also includes the accounts that reflect the State Bank's credit and settlement service for transport, for enterprises of the NKSvyazi, as well as the current accounts of organizations that do not have clearing or loan accounts, such as, for instance, public and professional organi-

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zations, the Gosstrakh and a few other organizations not occupied with productive or trading activities. This group also includes the deposits of military personnel and of private persons.

This group of the balance sheet is one of the most important, since on the whole it reflects the activity of the State Bank as the institution for short-term credit, the clearing center and the accumulator of monetary resources.

The classification of accounts in this group by the criterion of departmental subordination is of great importance, inasmuch as the credit plan of the State Bank is constructed on this basis. The fulfillment of this plan is verified by the aid of the balance sheet.

Group VIII "Past-due obligations to the Bank" records the indebtedness on short-term loans which were not met at maturity and were accordingly transferred from the corresponding loan accounts of Group VII; it also includes interest due to the bank (billed but not yet received from the clients).

Group IX "Letters of Credit and other settlement operations" includes all the accounts recording entries for letters of credit issued, for special freight-turnover accounts, for limited check-books and for certified checks; unpaid transfers are also recorded in this group.

Group X "Financing of Capital Repairs" contains all the special accounts for the capital repairs of industrial and other enterprises.

Group XI "Settlements with the budget and budgetary institutions" combines the balance-sheet accounts recording the receipts and expenditures of the union budget, the budgets of the union republics and the local budgets. The same group contains all the current accounts of institutions existing on the union, republican and local budgets, together with their deposits.

Group VII "Other accounts with the NKF USSR" contains accounts reflecting settlements with the NKF USSR in connection with the purchase of precious metals, accounts with reference to the revaluation of material-goods values for the account of the union budget, and other settlements with the NKF USSR.

Group XIII "Accounts with credit institutions of the USSR" reflects the accounts for service by the State Bank to the individual long-term investment banks, Vneshtorgbank, pawnshops and the Gostrudsbekassy.

A separate balance-sheet account is opened for each of the credit institutions in this group, except the Sel'khozbank, which has three: one for the funds for non-repayable financing [grants], one for the indivisible funds of the kolkhozes, and one for other transactions.

Group XIV "Transactions for accounts of the Agricultural Bank" is carried to handle the transactions performed by the State Bank on the instructions of the Selkhozbank and for its account in cities where the latter has no office.

Group XV "Accounts for Third-party Funds" is set up to

handle the accounting of sums and funds of special (third-party) [REDACTED] purposes, and also loans granted for account of such funds and sums.

Group XVI "Debtors and Creditors" contains the accounts in which transactions with various debtors, creditors and accountable persons are recorded. To this group belong account No 256 "Re-establishment of assets and liabilities of evacuated offices of the State Bank", No 257 "Amount of turnover cash on hand remaining unevacuated from the zones of military operations", and account No 258 "Interest due on obligations past due by reason of occupation" (for details on these accounts see Chapter XV).

Group XVII "Shares [REDACTED] and capital stock" records the investments of the State Bank in the statutory capital funds of enterprises and institutions by way of the acquisition of shares or capital stock therein.

Group XVIII "Mutual settlements" embraces the group of accounts which reflect inter-office settlements resulting from the execution of intra-city and intercity instructions of clients of the bank, or other transactions connected with the receipt of payments of funds through other offices of the State Bank.

Group XIX "Accounts with Khozraschet enterprises of the State Bank" reflects the total funds invested in khozraschet enterprises of the State Bank, such as, for instance, subsidiary farms, restaurants, garages, etc.

Group XX "Fixed capital resources of the Bank" contains the

accounts on which the buildings and building inventory of the bank are carried.

Group XXI "Depreciation of fixed assets" is used to record the depreciation of buildings and building inventory of the bank.

Group XXII "Capital expenditures on leased bank premises" records the amounts of capital investment in buildings leased by the bank.

Group XXIII "Accounts for capital investment by the State Bank" contains the accounts recording the amounts for financing capital investment in the system of the State Bank, the expenditures for completed capital investments and the receipts from the liquidation of capital assets (building inventory etc.)

Group XXIV "Prepaid expenses" includes accounts recording amounts expended by the bank during the current year on items chargeable to future years (cost of fuel stocked up for entire heating season, operating material purchased, etc.)

Group XXV "Bank income and expense" embraces the accounts reflecting the financial results of the activities of the State Bank.

Group XXVI is assigned to the special accounts of the State Bank with the NKf USSR. In view of their extremely limited application, Groups XXVI and XXVII are not carried in the balance-sheet nomenclature (of Appendix).

Group XXVII "Accounts of temporary character for the nationalized banks in the Lithuanian, Latvian and Estonian SSR" is devoted

to accounts reflecting the settlements with the nationalized banks in Lithuania, Latvia and Estonia (before the establishment of the Lithuanian, Latvian and Estonian SSR). [Group XXVIII contains the accounts recording the operations of State Bank offices in which the accounting records were not preserved, owing to military operations. (For details see Chapter XV).]

This is the content of all groups of balance-sheet accounts.

3. CLASSIFICATION OF NON-BALANCE-SHEET ACCOUNTS.

The non-balance sheet accounts, like those of the balance sheet, are divided into groups according to the criterion of uniformity of the valuables and documents involved. [The non-balance-sheet [redacted] accounts kept by the Khozorgany, with the difference that the latter are kept on a double-entry basis, while the former, in the interests of simplicity and economy, are only single-entry.]

Group I " Collateral" is used for recording the notes of clients covering short-term credits, and also those covering various balance-sheet accounts.

Group II " Reserve and fractional currency stocks" [The word "stock" is ^s used to avoid confusion with the statutory reserve fund (a balance-sheet account on which the cover for the note issue is carried). The balance-sheet accounts in this section, however,

cover the physical notes and coins held out of circulation in the various Regional Offices, which have no financial significance until issued concentrates all the accounts on which bank notes and treasury notes are carried, together with fractional currency, in the reserve and fractional currency stocks or in transit (shipments of replenishment currency stocks). The same group records authorizations to the Regional Offices and Branches to transfer paper currency and coins from the stocks to turnover cash, i.e. to place currency in circulation.

Group III "Settlement documents received for collection" contains the accounts that record documents received for collection (on commission) by bank establishments at the place the clearing accounts of the payers are maintained, and also settlement and other documents for foreign operations forwarded to the bank and accepted for collection.

Group IV "Depository accounts in various branches" combines the accounts carrying mainly such valuables as revenue stamps, Brofmarki, etc. [trade-union dues stamps]

Group V "Valuables for Safekeeping" is devoted to recording valuables accepted for safekeeping by the State Bank from Khozobgany, enterprises and institutions.

Group VI "Various documents and valuables" contains accounts recording what are termed transit valuables, for instance correspondence with currency received but not yet processed; correspondence and packages with declared value; valuables paid for but not yet de-

livered; other valuables and documents not carried in other non-balance-sheet accounts.

Group VII "Guarantees for accounts of foreign correspondents" is kept only at the Head Office of the Bank and records the securities and guarantees given on such accounts.

Group VIII "Documents and valuables at various State Bank Offices or with correspondents" consists of a number of accounts. One of them -- "Bills, drafts, and commodity documents with foreign correspondents" -- is found only on the Head Office balance sheet. The others are kept at the various State Bank offices and show the documents and valuables forwarded to other State Bank offices.

Group IX "Debts written off, and collateral covering them" is used to record debts already charged off to losses (covered by profits), and collateral covering them, as well as collateral for debts to be written off at the close of the current fiscal year.

Group X "Documents for transactions for account of Selkhozbank" contains the accounts recording the obligations of guarantee for the amount of credits opened for the account of the Sel'khozbank, and of the periodical obligations on long-term loans of the Sel'khozbank, as well as debts written off for its account and securities covering such debts.

Group XI "Letters of credit for payment" records letters of credit issued by establishments of the State Bank that serve suppliers.

Group XII "State budget credits" records credits opened for the union and republic budgets.

Group XIII "Blank forms of strict accountability" shows checkbooks and deposit books, together with receipt books for the night subbranches of the State Bank.

Groups XIV and SV are carried to record the valuables and documents received by the State Bank from the nationalized banks on territories that have entered the Soviet Union since 1929.

Groups XVI and XVII reflect losses suffered by the Bank on account of the war.

Group XVII serves to record the standard certificates, food cards, manufactured goods cards, and equivalent cards, issued to the Bank personnel.

This, in brief, is the content and the principles of classification of the non-balance-sheet accounts in use at the present time.

4. BRIEF CHARACTERIZATION OF THE ACCOUNTS. NUMBERING OF THE ACCOUNTS. FORM OF THE BALANCE SHEET.

The balance-sheet accounts of the State Bank are kept by double entry and are subdivided into resource, liability and accounts alternatively resource and liability.

The resource accounts have only debit balances, and the liability accounts have only credit balances.

The accounts alternatively resource and liability, such as, for example, the interhand settlement accounts (except the accounts "Settlements for currency placed in circulation" and "Settlements for currency withdrawn from circulation".) are collected in Group XVIII of the balance sheet "mutual settlements" and may pass from resource to liability, depending on whether their balances are debit or credit.

Some resource-or-liability accounts, for instance account No 225 "Unreconciled MFO items", No 266 "items not reconciled by Head Office entries during current year", No 210 "Other debtors and creditors", may be both resource and liability accounts at the same time, since they are shown on the balance sheet in the so-called expanded form. [separately for resource and liability sides]

The State Bank keeps all its non-balance-sheet accounts by single entry, that is, showing additions, withdrawals and balances.

Each group and each account is designated by its own assigned number. It must be noted in this connection that although the State Bank accounts are numbered in simple serial order, this numbering system is not rigidly followed in the current balance-sheet nomenclature. The reason is that the accounts were numbered as early as 1932. Since then a number of them have been closed, transferred from one group to another, replaced by new accounts, etc. All these changes interfered to some extent with the serial order of the account numbers. In 1940 the content of the groups was again reviewed, and all of them were renumbered (in serial

order). As for the accounts, it was recognized that any revision of the numbering system would be inexpedient, inasmuch as the bank personnel and clientele had grown accustomed to the established account numbers, and to change them, in view of the large number of accounts, would involve considerable practical difficulties, especially in the employment of that portion of the balance sheet used for recording short-term credit and settlement operation. (Group VII). For this reason it was decided to be content, for the time being, with the violation of the serial principle in the numbering of a few Groups. For instance, in the first group "Funds of the State Bank", the accounts are numbered 1, 2, 4, 242 and 3, while the next group -- II -- "Banknotes in circulation -- is account No 5.

In practice the numbers of the balance sheet accounts are combined with the numbers of the individual accounts of the clients. For this purpose the number of the individual clearing or current account of the client is added to the number of the balance-sheet account, giving a five-or six-digit combination, of which the first two or three designate the number of the balance-sheet account and the three following digits the individual account number. For instance, if the balance-sheet account, in combination with the analytical account (the detail clearing account of the client) is designated by the number 28021, this indicates: 38: balance sheet account "Enterprizes of Narkomtyazhmasma -- clearing accounts"; 021: serial number of detail account of "Krasniy Proletariy" machine construction plant.

Or, for instance, No 182141. Here the first three digits --

182 -- indicate the number of the balance-sheet account "Enterprises of Narkomat of automobile transport -- clearing accounts", while 141 is the number of a detail account for an automobile plant.

In designating clients' loan accounts, one or two conventional digits are added at the left side. The first of these indicates the nature of the loan, while the second (which is only added in the case of planned loans) shows the number of the group in the statistical scheme by branches of industry designating the purpose of the loan. In these cases the number of the detail loan account in combination with the balance-sheet account number consists of seven digits. Thus, No 1029021 means: 1, form of loan, in this particular case, loan against settlement documents en route; 029: number of balance-sheet account "Enterprises of Narkomtyazhmasha -- loan accounts"; 021: serial number of detail loan account for the same plant mentioned above. It may be remarked in this connection that the detail loan account of a client always has the same number as its clearing account.

Individual accounts covering past-due loans also have seven-digit numbers, but in this case, by convention, the first figure is always a "9". Thus, No 9029021 designates the number of the individual account for past-due loans made to the "Krassniy Proletariy" machine construction plant, which belongs to the Narkomtyazhmash system.

In State Bank establishments that use machines to handle

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their synthetic and analytic accounting, the combination of figures is somewhat different.

The balance sheet of the State Bank, in contradistinction to those of most institutions and enterprises, is drawn up every day, and not on a form with two sides, but on one with only a single side.

As is generally known, on the two-sided form of balance sheet the resources and liabilities are shown on the opposite sides of the same table. The one-sided form is used, in practice, in two variants: the first arranges the accounts in sequence, one after the other, first the resource accounts and then the liability accounts; while the other uses what is termed mixed grouping, in which the resource accounts alternate with the liability accounts, and the partial sums of these two groups are placed from time to time in separate columns for resources and liabilities.

Since 1920 the State Bank has used the second variant of the one-sided balance sheet. Before that the balance-sheet tabulation was divided into two sides. The resource accounts were placed on the left side, and the liability accounts on the right. The shift to the one-sided form was caused by the steady growth, from year to year, of the number of accounts in the balance-sheet nomenclature of the State Bank and the necessity for repeating a large number of titles of sections and accounts alternatively resource and liability on both sides of the balance sheet. Use of the one-side form eliminated the need for this repetition. Besides - and this was the principal consideration under the conditions of the State Bank -- it was possible

in this way to group together the resource and liability accounts of similar economic content, while with the two-side form, the resource accounts relating to a given economic classification had to be looked for on the left-hand pages of the balance sheet, while the liability accounts belonging to precisely the same classification had to be looked for on the right-hand pages, which would undoubtedly make it more difficult to study the balance sheet if the nomenclature included a large number of accounts.

We shall not stop here to consider the separate accounts that enter into the various groups of the balance sheet. They should be studied in successive order as the corresponding operations are taken up in the separate chapters of this course. The task of this chapter has been to furnish an introduction to the general principles of classifications of accounts in the balance sheet.

CHAPTER III

SYNTHETIC AND ANALYTIC ACCOUNTING

1. THE TASKS OF SYNTHETIC AND ANALYTIC ACCOUNTING

Synthetic, or, in other words, summarizing, generalizing, combinatorial accounting has for its task the representation in concise form, by means of consolidated index numbers expressed in a single monetary standard, the economic work of a given socialist enterprise or organization; synthetic accounting gives a general picture of the financial position of an economic unit, the degree to which the plan established for it has been fulfilled and the financial results which it has attained.

In the State Bank, the synthetic accounting has the concrete purpose of displaying, in summary form:

A. For liabilities:

Capital resources of the bank; circulation; cash collections of the receipts side of the budget; funds belonging to Khozorgany and brought into the bank; settlements with Spetsbanki and foreign banks; income of the bank; mutual (interbranch) settlements; contingent liabilities by the bank for guarantees issued and paper accepted by the bank in connection with foreign trade.

B. For the Resources:

monetary resources; securities and valuables; cash disbursements of the expenditures side of the budget; funds placed by the bank in short-term operations; accounts with Spetsbanki and foreign banks; mutual (interbranch) accounts; contingent

liabilities of debtors on guarantees issued and paper accepted by the bank in connection with foreign trade.

A supplementary task of the synthetic accounting arose by reason of the war: the determination, in summary form, of the accounts covering the operations of State Bank establishments in which the accounting records were not preserved.

In addition the synthetic accounting yields a series of other accounting indices that cannot be included in the system of the balance-sheet accounting (since they do not form part of the resources and liabilities of the bank). These constitute what is called the non-balance-sheet accounting.

Such items include: securities and valuables not belonging to the bank ---serving as security, forwarded on commission, or deposited for safekeeping; reserve stocks of banknotes, treasury notes and coins; moveable valuables of the State Bank and its clients; debts written off and collateral for them; state budget credits, etc.

The losses of the bank due to the war were also reflected in summary form, in the non-balance-sheet accounting.

But in addition to the summary, composite data, it is also necessary to have more detailed information on the activities of the bank. This information is obtained by means of the analytical accounting, the task of which is the detailed breakdown of the synthetic (balance sheet) accounts, and their distribution into partial accounts, reflecting, for example, the loans granted to each separate

client, the available funds placed at the Bank's disposal by each client, etc.

The distinction between synthetic and analytic accounting is graphically portrayed by the comparison of any of the balance-sheet accounts of the State Bank with the detail accounts related to the same balance-sheet account. For instance, the balance-sheet account "Enterprises of the People's Commissariat of Textile Industry-- clearing accounts" belongs to the synthetic accounting. This balance sheet account shows the total amount in the clearing accounts of the State Bank for the textile enterprises. The separate detail accounts opened by the enterprises of the People's Commissariat of Textile Industry -- for instance, the "Krasnaya Roza" textile mill, the "Tekhnotkan" mill, etc. -- belong to the analytical accounting, which breaks down the above synthetic account and itemizes it in detail.

The synthetic accounting, in reflecting, in composite form, the dynamics and statistics of a given socialist economy, should, as has been mentioned above, utilize the only generalized standard of measurement, namely the money index. The analytic accounts, in reflecting each separate operation in all of its details, furnishes detailed information on that operation not only in financial terms, but also, where necessary, in natural (quantitative) indices as well. Thus, for instance, the transactions involved in buying and selling foreign currency will be reflected, in the synthetic accounting, in a single monetary standard, namely in rubles and kopeks of value for foreign

currency bought and sold; but in the analytic accounting the kind of foreign currency (dollars, francs, pounds sterling, etc.) and their respective amounts (number of dollars, francs, pounds, etc.) will also be shown.

On the basis of the data of synthetic and analytic accounting, both a general idea of a given economy and detailed information about it may be obtained.

2. SYNTHETIC ACCOUNTING

As is generally known, synthetic accounting is realized by means of chronological and systematic entries.

The chronological entries are made in the general journal. ~~_____~~ [bakhgalterskiy zhurnal]. [It would probably be more accurate to render this by "journal-ledger" since, though no separate general (like US banks) ledger is kept, the combined journal and ledger in the usual progressive (Boston) form is generally kept in the State Bank⁷. Each transaction taken separately is as a rule entered as completed. In the interest of practical convenience, however, the record of each transaction is kept in a separate journal (the cash-book) from which the sums of the turnovers arranged by the corresponding accounts are transferred to the journal at the close of the day. The characteristic feature of the journals used in the State is not only that they show the transactions in chronological order (which is basic) but also that they classify operations of similar nature by the separate balance-sheet or non-balance-sheet accounts. This structure of the journals makes it

possible to prove the analytic accounting against the journal turnovers and obtain the data necessary for the turnover reports.

The systematic entry in the State Bank is concentrated in the proof sheets. [Oborotnaya Vedomost'] In contrast to the journals, the proof sheets show the totals of all similar transactions, arranged by balance-sheet and non-balance-sheet accounts, for the entire day (in the case of daily proof sheets), for the entire month (for monthly proof sheets), or for the whole year (in annual proof sheets). The new balances for each balance-sheet and non-balance-sheet account are also brought down in the turnover reports.

Journals in the State Bank are kept in the checkerboard or the American form.

[See form on following page]

Form No 1

THE CHECKERBOARD FORM OF JOURNAL¹

Number of designation of account charged	Credit		Account "MFO initiated during cur- rent years		Account "Cash"		"Enterprises of Narkom- tyazhmash-- clearing accounts"		"Enterprises of Narkomishcheprom -- clearing accounts"	
	Debit									
	Amount	No	Amount	No.	Amount	No	Amount	No	Amount	
(1)	(2)		(3)		(4)		(5)		(6)	
"Cash"	3,600	-	-	-	-	1	1,000	3	500	
"Contra MFO entries for current year"	9,000	-	-	-	-	-	-	-	-	
"Enterprises of Narkomtekstil'-- clearing ac- counts"	8,000	9	5,000	6	3,000	-	-	-	-	
"Enterprises of Narkomtekstil'-- loan accounts"	13,000	-	-	-	-	-	-	-	-	
Total	33,600	-	5,000	-	3,000	-	1,000	-	500	

1. For simplicity only 10 columns are shown in this table. In practice there may be as many as 29 columns.
2. In practice, as has been mentioned above, cash transactions are first entered in the cash book, from which the totals arranged by accounts are posted to the general journal.

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"Potrebkooper- atsiya -- clearing accounts"		"Enterprises of Narkomtekstil'-- clearing accounts"		Obligations on short-term loans			
				Receipts		Disbursements	
No	Amount	No	Amount	No	Amount	No	Amount
(7)		(8)		(9)		(10)	
5	200 ²	-	-	8	13,000	-	-
7	1,900						
-	-	4	9,000	-	-	-	-
-	-	-	-	-	-	-	-
-	-	8	13,000	-	-	-	-
-	2,100	-	22,000	-	13,000	-	-

The checkerboard form of journal ⁷The checkerboard form, in its classical form, is a sheet ruled vertically and horizontally on both sides, like a checkerboard, whence the name⁷, which is the most expedient (as will subsequently be seen) is shown on page 29 (Form 1).

The first column of the form shows the titles or numbers of the balance-sheet accounts debited. In this column a number of balance-sheet accounts can be placed, leaving after each of them the necessary number of blank lines, depending on the possible number of charges to each such account. The second column is used to show the total amount of the debit entries to each balance-sheet account at the close of the day.

All the other columns are used for credit entries for the accounts. At the top of each column there is noted the title of a balance-sheet account (in practice this is replaced by the number designating the account, to save work). Each column has a narrow space for noting the number of the document authorizing the entry. This space makes it possible to use the entire line if necessary (see the entry to the account "cash"). In this way a substantial disadvantage of the checkerboard form is eliminated, namely that a large area of the paper is often left blank.

In our example the following operations are recorded.

During the course of the day cash deposits were made in the State Bank branch by "Krasniy Proletariy" plant (balance-sheet account "Enterprises of Narkomtyazhmash -- clearing accounts"),

1000 rubles (Document No 1), by "Zarya" candy factory (balance-sheet account "Enterprises of Narkomishsheprom -- clearing accounts", 500 rubles (Document No 3) and Sel'po [rural consumers' cooperative] (balance-sheet account "Potrebkooperatela -- clearing accounts"), 200 rubles (Document No 5).

On the basis of an MFO [Interbranch Transfer] advice received from another branch of the State Bank (Document No 4), the clearing account of the "Krasniy Luch" textile factory (balance-sheet account "Enterprises of Narkomtekstil' -- clearing accounts") was credited with the sum of 9000 rubles.

A check for 3000 rubles (Document No 8) for wages of workers and other personnel of the "Krasniy Luch" factory was paid (balance-sheet account "Enterprises of Narkomtekstil' -- clearing accounts").

Trading receipts of 1900 rubles (Document No 7) were deposited by the Sel'po (balance-sheet account "Potrebkooperatela -- clearing accounts").

A planned loan of 13000 rubles was granted to "Krasniy Luch" factory (balance-sheet account "Enterprises of Narkomtekstil' -- loan accounts"), and the amount of the loan was credited to the clearing account of the factory (balance-sheet account "Enterprises of Narkomtekstil' -- clearing accounts"). (Document No 8).

By instructions of the Krasniy Luch Textile Factory, 5000 rubles were transferred to its clearing account at an out-of-town establishment of the Bank (Document No 9).

After entering all these transactions, we now proceed to

closing the journal.

For this purpose we calculate the turnovers on the credited accounts which correspond to the debits against the charged accounts (in our table, for instance, we obtain the total of 3600 rubles against "Cash" account) and enter the total -- $\sqrt{\text{against each such account}}$ in column 2.

After finishing the computation horizontally, we now proceed to make the computations vertically. We add the amounts in each column and place the sums underneath, on the line "Totals". The total for column 2 will be the debit turnover for all operations for the day (in our example, this is 33600 rubles).

The grand total of all the subtotals for the accounts in which there were credit turnovers should obviously equal the grand total for the accounts that reflect debit turnovers. $\sqrt{\text{"turnover"}}$ used in sense of our "entries". $\sqrt{\text{And in fact, in our journal the total for the accounts with credit turnovers is equal to 33600 rubles (5000+3000+1000+500+2100+22000).}}$

This equality, or proof, must under all circumstances be established when the journal is closed. It evidences the fact that all credit entries have been fully reflected in the accounts debited as well, and show that the arithmetical computations in the journal have been correctly performed.

In addition to this purely formal verification, it is also necessary to make sure that all transactions have been journalized.

This is done by proving the grand total of the turnover from the cash receipts and cash disbursements documents and the grand total of the turnover on one side of the posting memos against the grand total of turnovers shown by the journal. [The journal is signed by the journal clerk and the head bookkeeper.] Identity of these totals will, as a rule, evidence the journalization of all transactions in the amounts shown on the face of the original documents.

It is of course true that in exceptional cases an unjournalized document may also be missing from the package of documents posted for the day. In this case the complete journalization of all operations carried out may be established by proving the analytic accounting against the synthetic (details on this subject will be found on pages 41-46 [Original]).

The possibility of showing on the debit side only the total amounts credited to the corresponding accounts is an undoubted merit of the checkerboard journal used in the State Bank. In addition, this journal also shows most graphically the correspondence of accounts that characterizes the essential features of the entries (for instance, the source for account of which funds are paid out, etc.)

Keeping the checkerboard form demands high qualifications in the accounting worker, and particular attention on his part in determining the horizontal line on which an entry is to be made. The negative side of this form of journal is the difficulty of computation in cases where the accounts to which credit entries are to be made, and which correspond to a given account to be debited, are not all located on the same sheet of the journal. It is also not always

simple to determine in advance how many lines must be left free for the accounts which will reflect the debit turnovers.

The American form of journal used in the State Bank is based on the generally adopted American form. The American form was first developed by the Frenchman E. Degrange, and then enjoyed widespread acceptance in America, whence the name The basic principle of this form, as everyone knows, is the combination of the chronological entry -- in the journal -- with the systematic entry-- in the ledger. The present structure of synthetic accounting in the State Bank dispenses with the need for a ledger. Thus the form employed by the State Bank is intended only for chronological entries. It represents in essence a classification sheet, but with separate columns for each balance-sheet account.

In the American form of journal, presented in Form 2, the same operations are entered as in the checkerboard form.

On examination of Form 2, the method of conducting this journal becomes very easy to understand. Each column, over which the title of the corresponding balance sheet account is entered, is divided into the subcolumns: the first for registration of the debit entries relating to a given balance-sheet account, and the second for credit entries to the same account.

The journal is closed by computation of the separate totals entered in each debit and credit subcolumn, and the entry of the totals thus obtained at the end of the journal on the line designating "Total".

AMERICAN TYPE JOURNAL FORM NO 2

Account "MFO initiated during current year"
(No 263)Account "M FO Contra during current year" Account " Cash"
(No 264) (No 18)

DEBIT			CREDIT			DEBIT			CREDIT		
Document No	Corresponding Account No	Amount	Document No	Corresponding Account No	Amount	Document No	Corresponding Account No	Amount	Document No	Corresponding Account No	Amount
(1)			(2)			(3)					
-	-	-	9	52	5,000	4	52	9,000	1	38	1,000
-	-	-	-	-	-	-	-	-	6	52	3,000
-	-	-	-	-	-	-	-	-	3	55	500
-	-	-	-	-	-	-	-	-	5	91	200
-	-	-	-	-	-	-	-	-	7	91	1,900
Total	-	-	-	-	5,000	-	-	9,000	-	-	3,600
											3,000

"Narkomtyazhmash Enterprises -clearing accounts" (NO 38) "Narkompishcheprom Enterprises-clearing accounts" (No 55) "Potrebkooperatsiya-clearing accounts" (No 91)

(10)79

DEBIT				CREDIT				DEBIT				CREDIT				DEBIT				CREDIT			
Document No	Corresponding Account No	Amount		Document No	Corresponding Account No	Amount		Document No	Corresponding Account No	Amount		Document No	Corresponding Account No	Amount		Document No	Corresponding Account No	Amount					
-	-	-		(4)	1	18	1,000	-	-	-		(5)	3	18	500	-	-	-		(6)	5	18	200
-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7	18	1,900	
Total	-	-	-	-	-	-	1,000	-	-	-	-	3	-	500	-	-	-	-	-	-	-	2,100	

"Narkomtekstil'-clearing accounts
(No 52)

DEBIT			CREDIT		
Document No	Corresponding Account No	Amount	Document No	Corresponding Account No	Amount
(7)					
6	18	3,000	4	264	9,000
9	263	5,000	8	53	13,000

"Narkomtekstil' - Loan accounts
(No. 53)

DEBIT			CREDIT		
Document No	Corresponding Account No	Amount	Document No	Corresponding Account No	Amount
(8)					
8	52	13,000 -	-	-	-

(9) 47

Total

-	-	8,000	-	-	22,000	-	-	13,000 -	-	-
---	---	-------	---	---	--------	---	---	----------	---	---

The total amount of the turnovers in all debit columns (in our example $9000+3600+8000+13000=33600$) must equal the total of the turnovers in all credit columns (in our case $5000+2000+1000+500+2100+22000=33600$).

The basic merit of the American type is its indisputable simplicity. Here there is no need to enter the sums to the credit of an account necessarily and at all events on the same horizontal line with the corresponding account to be charged. The totals, as we have seen, are written one after the other in the corresponding columns. The computations for the accounts debited are just as simple as for those credited, which is not the case with the checkerboard type. The closing out of this journal is also distinguished by its great ease.

The weak side of the American type, which limits its application, consists in the fact that it requires, under all circumstances, simultaneous debiting of the amounts credited, and also requires entry of the corresponding account numbers at the completion of each entry, and together with this, fails to make the correspondence of accounts evident at a glance.

3. THE CENTRALIZED AND DECENTRALIZED METHODS OF KEEPING THE JOURNAL

The question as to whether the centralized or decentralized method of keeping the journal shall be used is decided in direct connection with the volume of operations.

In the overwhelming majority of branches it is possible to concentrate (centralize) the entry of all operations in a single journal. In this case the journal is kept by the bookkeeping department of the branch.

In the larger branches (Regional Offices), where the chronological recording of the numerous operations cannot be entrusted to a single journal clerk, the entry of operations by accounts must be decentralized into separate groups of operations, for each of which groups an independent journal is kept. With such an organization, the conduct of the synthetic and analytic accounting is centralized in the corresponding operational groups, each of which serves a definite circle of the clientele. It happens, not infrequently, that the same operations affect the accounts of clients carried in two different groups. For example, the account of the payer "Narkomkhiprom Enterprises" is in one group (let us call it the first group), while that of the supplier "Narkomles Enterprises" is in another (let us call it the second group).

How is the synthetic accounting organized in this case?

On debiting the account "Narkomkhiprom -- Clearing Accounts" in its journal the first group has no right to credit the account "Narkomles Enterprises -- clearing accounts" because the latter is attached to the second group. Instead of crediting this latter account, the first group credits an account opened in its journal in the name of the second group. This account ("Group 2") has essentially the character of interbranch clearings between the

separate groups of accounts in the branch. The second group, on making the contra-entries in our example, debits the "Group 1" account opened in its journal and carries the amount paid to the supplier to the credit of the balance-sheet account "Narkomles Enterprises -- clearing accounts".

Thus all sums passed in the journal of the first group to the credit of an account clearing through the second group must necessarily be entered on the same day by the second group on the debit side of an account in its journal that records the settlements with the first group.

After making this general statement, we arrive at two conclusions:

1. The turnovers on the clearings between any two groups must be equal. Absence of identity is a signal of error (failure of the contra-group to make the entry, error in the amount entered, etc.)
2. Since these turnover equalities bear the character of internal clearings, which are auxiliary for the branch itself, and are already reflected in the corresponding balance-sheet accounts (in our example, in the balance-sheet accounts "Narkomkhibrom Enterprises -- clearing accounts" and Narkomles Enterprises -- clearing accounts"), they should not be included in the summary of group journals nor in the daily proof sheet (see *infra*).

At the end of the business day, the group journals are

taken to the chief bookkeeper's office of the branch, where they are bound together in a single folder. At this time a consolidated summary is made in one of the journals, showing separately the total turnovers for balance-sheet and non-balance sheet accounts, separately for each journal, together with the daily totals for all journals. The total debit and credit turnovers of the summary must check.

4. ACCOUNTING WITH THE NON-BALANCE-SHEET ACCOUNTS.

The content of the non-balance-sheet accounts has been characterized in Chapter II. Non-balance-sheet accounting in the State Bank is organized according to the simple single-entry system. A completed operation is reflected on the additions or subtractions side of the non-balance-sheet accounts. The synthetic non-balance-sheet accounting is likewise subdivided into chronological and systematic. The chronological non-balance-sheet accounting is concentrated in the general journal, while the systematic accounting thereof is concentrated in the proof sheets.

The balance-sheet accounting is separated from the non-balance-sheet accounting in the journal by a heavy line, or, better still, by a colored line. Over each column, which is divided into two subcolumns² (additions and subtractions), the title of a non-balance-sheet account is entered. Thus, the term notes accepted by the bank from its clientele to secure payment of loans belong in the account "Notes on short-term loans". After payment by the client, the obligation notes are returned to them, and are written off.

by entry on the subtraction side of the account "notes on short-term loans" (cf. form 1).

The non-balance-sheet portion of the general journal is closed out in the customary manner: the separate totals of receipts and disbursements for each subcolumn are entered at the end of the journal on the line "Totals". The non-balance-sheet accounting procedure is the same no matter whether the checker-board or American type of journal is employed.

5. PROOF SHEET AND ITS PREPARATION

The daily proof sheet represents a synthetic accounting document. This means that it gives an idea not of any particular side of the work of an establishment of the Bank, but of all of its work as a whole. It shows in summary form the turnovers and balances for all balance-sheet and non-balance-sheet accounts, which furnishes a general picture of the movements and conditions of the bank's resources. The preparation of a daily proof sheet is necessary in view of the considerable volume of the turnover and the large number of transactions completed every day. It supplies the management of the branch the information needed by it to run the affairs of the branch, on the changes in the balance sheet due to current operations and serves as the basis for daily verification of the data furnished by the analytic accounting (cf. pp-41-46).

The proof sheet consists of two parts, the first containing the balance-sheet accounts and the second the non-balance sheet

accounts. Both types of account are arranged by groups in the order of the Nomenclature of accounts of the State Bank balance sheet.

The form of the daily proof sheet $\sqrt{\text{turnover report, } \text{óóópothaa}}$
be owcothb

Form 3

PROOF SHEET NO.....

..... Branch of the State Bank for 18 March 1945

Account	Title of Balance-Sheet Account	Turnovers on 15 March 1945	Balances carried forward to 18 Mar 1945
		Debit (3)	Credit (4)
(1)	(2)		
	Group IV: Monetary resources		Assets Liabilities (5) (6)
18	"Cash"	3600	3000 600 -
Gro	Group VII: Short-term credit and settlement operations		
38	"Enterprises of Narkomat of Heavy Machine-Buildings--clearing accounts" -		1000 - 1000
52	"Enterprises of Narkomat of textile industry-clearing accounts" 8000	22000	- 14000
53	"Enterprises of Narkomat of Textile Industry -- Loans" 13000	-	13000 -
55	"Enterprises of Narkom-pishcheprom-clearing accounts" -	500	- 500

(1)	(2)	(3)	(4)	(5)	(6)
91	"Consumer Cooperatives -- Clearing Accounts"	-	2100	-	2100
GROUP XVIII: MUTUAL SETTLEMENTS					
328	Account "Interbranch Transfers initiated during current year"	-	5000	-	5000
264	Account "Interbranch Transfers contra during current year"	9000	-	9000	-
	BALANCE	33600	33600	22600	22600

The procedure for preparing the daily proof sheet may be summarized as follows: The amounts of the turnovers in the balance-sheet accounts are taken from the journal and entered in column 3 for the charges and column 4 for the credits, on the same line with the title of the corresponding account. The rest of the procedure for preparing the proof sheet will be clear from Form 3 itself. The total of the turnovers shown by the daily proof sheet must check with the total turnovers shown in the journal for the same day.

Form 3 shows the proof sheet for a State Bank branch that opened on 15 March 1945. This proof sheet reflects the turnovers of the branch for the first day of its operation -- 15 March -- and the resultant balance carried forward to 16 March. In preparing the proof sheet for the following day (16 March) the balances brought forward must be taken into account in computing the resultant balances carried forward to 17 March. Thus, for instance, if during 16 March there were debit turnovers of 5800 rubles and credit

turnovers of 5100 rubles on the "cash" account, the balance brought forward from the preceding proof sheet, and shown therein as carried forward, must be taken (in our example 600 rubles). To this (as a resource account) the debit turnover (5800 rubles) is added; the credit turnover (5100 rubles) is then subtracted to give the new balance carried forward (1300 rubles).

In the proof sheet presented, only those accounts in which there was activity during the day are shown. In the proof sheets used in the State Bank branches, the numbers and titles of the balance-sheet and non-balance-sheet accounts which are as a rule encountered in most such branches are printed in advance. A number of lines are left blank for the numbers and titles of accounts which may be encountered in one branch or another, but which are not printed on the proof sheet.

The monthly proof sheet combines all turnovers that have taken place during the given accounting period, and may also be obtained by computations from the daily proof sheets.

Another method of obtaining a monthly proof sheet, which is easier in practice, and avoids a large amount of computation, is to take the turnovers for the accounting period from what are termed summary cards. [Summary cards contain data on the turnovers during the month for each balance-sheet and non-balance-sheet account and also show their balances. They are filled out from data obtained by daily computation of the turnovers in the detail accounts that belong to a given balance sheet account. Details on the summary cards will be found on pages 41-42. [Summary cards are identical with our control ledger cards.])

No matter by what method they are prepared, the monthly proof sheets show the balances brought forward to the first day of the accounting month in special columns that precede the turnover columns. These balances are taken from the proof sheet for the preceding month. On the first day of the new month the balances are computed in the customary manner by adding the monthly debits to the initial balances on the resource accounts and subtracting the monthly credits. The balances so obtained for the resource accounts as of the first day of the new month are entered in the next to the last column of the proof sheet. The balances for the liability accounts are computed similarly (the credits during the month are added and the debits subtracted).

How is the accuracy of the monthly proof sheet verified?

Its final balances must precisely agree with the final balances shown by the daily proof sheet for the last day of the accounting month. In addition, the total turnovers shown by all the daily proof sheets for the month must check with the total of the turnovers shown by the monthly proof sheet. Finally, the turnover shown by the monthly proof sheet must be identical with that shown by the journal for the month in question, and all balances of accounts shown by the monthly proof sheet must be identical with the initial balances [balances brought forward] shown by the summary cards for the first day of the new month.

The annual proof sheets are prepared analogously to the monthly proof sheets.

The daily, monthly and annual proof sheets are signed by the

employee who prepares them, and also by the chief bookkeeper and the manager of the branch.

6. THE ANALYTIC ACCOUNTING

In the course of the synthetic summary accounting, as we have seen, the analytic accounting, whose instruments are the detail accounts and the operative analytic journals, is carried on.

It is of course obvious that without separate detail accounts for both credit and settlement operations the State Bank could neither ascertain the amount due from a given client nor the balance of that client's free funds.

In the absence of separate detail accounts the State Bank would be deprived of the possibility, when developing each balance-sheet account, of knowing all the extremely important details which are necessary to the Bank. A glance at the groups of the State Bank balance sheet is enough to convince the reader of this. Specifically, the State Bank determines, by its analytic accounting: with respect to administrative and management expense, the nature of these expenses (wages, contents of buildings, etc.); with respect to operating income the nature of such income (interest received for each type of operation, commissions, etc.); with respect to foreign exchange operations, the kind of foreign currency involved (dollars, marks, etc.), its amount, etc.

The detail accounts constitute the instrument of the systematic analytic accounting, i.e. of the accounting that produces a breakdown (analysis) of the data of a balance-sheet account into its

separate independent components, which reflect the turnovers and balances by individual indices (separate debtors, creditors, securities, etc.)

The types of personal account vary, depending on the character of the operations to be recorded, but all of them contain the following requisites which are indispensable for the analytic entries: in the caption of the account, designation, of the State Bank branch where the account is kept; numbers of the balance-sheet account and detail account, respectively; title of the detail account itself (name of the organization in whose name the account is opened; if the account concerns valuables, then the designation of such valuables, etc.); in the other part of the account, date of entry; substance of entry; numbers of contra accounts; charges; credits; balance; auditor's notation.

The form of the detail account and the operations entered therein are discussed in Chapter V.

Certain operations which are carried out by the Bank can be recorded in all necessary detail without having recourse to separate detail accounts. These operations are registered in a chronological, analytic, operational journal. It is called an operational journal because it reflects an entire operation as a whole; the balance of such a journal completely corresponds to that of the balance-sheet account in which the operation in question is recorded (for instance, the account "Transactions with direct foreign transfers"). Such a journal is called analytic because it contains all necessary details for each separate item of the entry,

which thus does not lose its identity in the mass.

As a rule operational analytic journals record operations the totals of which are reflected, as the operations take place, on one side of the account, and are subsequently obligatorily taken up in their entirety by a single process (transfer). In the second stage of the operation, these totals are then recorded on the other side of the account, a notation of that transfer is made beside the original entries.

The analytic journal is distinguished from the general journal by the fact that the former records, in exhaustive detail, one particular kind of operation (for instance, operations in settlement of certified checks), while the latter reflects in general lines all the operations performed in the establishment of the Bank on the day in question.

The State Bank uses the following analytic journals in working up the balance-sheet accounts: "Currency shipments in transit to replenish or reduce branch turnover funds"; "Foreign transfers unpaid"; "Unadjusted MFO amounts"; "Certified checks" (on acceptance of checks); "Transactions in direct foreign transfers"; "Items unreconciled by Head Office entries, and others.

The list of these journals confirms the general proposition heretofore enunciated. Thus, for instance, the amount of each shipment still in transit en route is charged in detail on the debit side to the account "Currency shipments in transit to replenish or reduce branch turnover funds" in the analytic journal. When

notification (WFO credit advice) is received, an entry is made on the opposite, credit side, and the arrival of the amount at its destination is noted against the original debit entry.

The form of the operational analytic journal is presented in Chapter V.

To strengthen the control over certain operations it is sometimes necessary, in isolated instances, to make chronological entries of the operations in a given non-balance-sheet account, besides keeping the detail accounts. To this category of journals belong the journals that record the reserve funds [reserve currency stocks] at the various establishments of the State Bank (non-balance sheet accounts No 465 and 466); and the journals that record state budget credits (non-balance-sheet accounts No 475 and 476); and others.

7. FORM OF ANALYTIC ACCOUNTING

The analytic accounting in the State Bank is mostly done on cards. Books are used for some operations, however. This explains the existence of two forms of analytic accounting -- the book form and the card form, which is mainly employed in the form of separate (loose) sheets.

The book form of accounting is employed, as a rule, on separate and limited areas of work. Thus, for instance, books are used to record valuables held in the vaults, to record the reserve stocks of currency and the fractional currency stocks, the unpaid foreign transfers, certified checks, etc. All the pages of

these books are numbered and bound together, and a verification of the number of such numbered and bound pages must be signed, on the last page, by the manager and chief bookkeeper.

The book form of accounting suffers from a number of disadvantages. It is unwieldly and deprives the work of its operational efficiency, since the worker, after making an entry and turning the book over to the controller for verification, is unable to make any further entries before the book is returned to him. It is very difficult to obtain information in various groupings from a book, since the accounting data cannot be arranged in it in the necessary direction, and in all cases work of selection is necessary. Typewriters and bookkeeping machines cannot be used with books. A book keeps accounts that have already been closed, or are useless, etc., among the active accounts.

The card form of accounting is free from these disadvantages of the book form. Cards possess the basic requisites necessary for analytic accounting (mentioned above). Depending on the character of the operation, supplementary information on the amount of credit opened, etc., may be entered on the detail account card (on its title or heading part). Cards relating to a single detail account are serially numbered, beginning with the first number.

There are a number of variants in the card form of accounting:

Loose leaf. The State Bank uses mainly what are termed loose leaves. On each sheet one operation after another is recorded until

all the lines on the sheet have been used. Essentially it is the same detail account sheet that was formerly bound in a book, and was then released from the binding. ^{whence} ~~where~~ the name "loose leaf". In the State Bank the detail account is represented by a folded set of two copies, with a sheet of carbon paper between them.

The top copy is the original of the detail account. When the entries are made on it with a chemical pencil, a copy of the account automatically obtained on the lower sheet, which is used to advise the client of all entries to its detail account. This copy of the account is still termed an abstract, as it was called when the book form of accounting was used, and a copy of the account had to be made by hand for the advice of the client. The copy now sent to the client is signed by the controller and loose-leaf operator.

CARD-ORDERS. Another variant of the card form of accounting is the card-order form. In contrast to the loose-leaf system, only a single operation is recorded on each card. One of the principles of this system -- the substitution of card-sorting for entries -- is utilized by the State Bank in various special sections.

Thus the set of cards prepared in a single operation (by copying) for mutual settlements (MFO) gives cards for the credit and debit card-files (for the initiating and contra branch). The operation for each collection of demands for payment is handled by the same accounting technique.

8. PROVING THE ANALYTIC ACCOUNTING AGAINST THE SYNTHETIC

In addition to the verification of each separate analytic entry (by the procedure indicated in Chapter IV), the State Bank takes advantage on a wide scale of the possibilities of control afforded by the balance sheet accounting. Thus the analytic and synthetic accounting are mutually proved against each other every day on the basis of the daily proof sheet. Such a proof means the comparison of the totals of the turnovers and balances obtained by a given analytic accounting with the turnovers shown by the general journal and with the proof sheet. If, as we have seen above, the analytic accounting which is carried on in developing a given balance-sheet or non-balance-sheet account, breaks this account down into its component parts, then in turn the aggregate of component parts must precisely agree with the data of the synthetic (summary or balance-sheet) account. The proof must, under all circumstances be made on the day the operations are performed, and must be done separately for each balance-sheet and non-balance-sheet account. The need for such a proof is due to the possibility that some erroneous entry might pass unnoticed, or that some document might be processed by the operator, but for some reason or the other not be entered by the journal clerk, etc.

Daily mutual proof of analytic accounting against synthetic accounting. What are termed summary cards are a technical means of facilitating this proof. They are called summary cards because each of them represents a summary of the turnovers and balances of all

the detail accounts that belong to a given balance-sheet or non-balance-sheet account. The summary card is filled in by the operator who handles the corresponding detail accounts. It has the form shown on page 42.

For the sake of greater clarity we use the following example to illustrate the procedure of filling in a summary card.

Assume that on 1 March the initial summary balance to the account "Narkomtekstilprom Enterprises -- clearing accounts" is 150000 rubles (see the form). In the course of the business day the turnover on the detail accounts belonging to this balance-sheet account amount to 20000 rubles in debit entries and 30000 rubles in credit entries. These totals are respectively entered in columns 2 and 3 of the summary card. Subsequently the total initial balance for such of these accounts as are active (i.e. for those having turnovers on the given day) is found by adding their initial balances. Assume that this total amounts to 50000 rubles. Further, we determine the total of the closing balances for the same accounts to be 70000 rubles. By subtracting the initial balance for such active detail accounts (60000 rubles) from the combined opening balance for all detail accounts belonging to the balance-sheet account "Narkomtekstil'prom Enterprise -- clearing accounts" (150000 rubles), and adding the closing balance for these accounts (70000 rubles), we must obtain the combined closing balance of all the accounts recorded in this balance sheet account: 160000 rubles ($150000 - 60000 + 70000 = 170000$). This sum is entered in column 5 of the summary card. It is easy to convince ourselves that balance

derived in this way is also the same as that which results from the turnovers shown in columns 2 and 3 ($150000 - 20000 + 20000 = 160000$).

In cases where most of the detail accounts belonging to a given balance-sheet account were active during the day, rational practice will save work by adding all closing balances shown on the detail accounts, both active and inactive, and entering the respective debit and credit totals in columns 4 and 5. This makes it possible to avoid adding a large number of opening balances in addition.

It will be seen from the form itself that it is also used for entry of the controlling interest numbers, which are described in detail in Chapter V.

[Summary card on following pages]

Form No 4

State Bank

RO/B

SUMMARY CARD FOR MARCH 1945

Balance-sheet account "Narkomtekstil'prom
Enterprises --- clearing accounts"

Title of account

Date of the month	Balance on 1st of month 150,000				Checked by:		
	Turnovers		Balances		Journal Control-	Head	
	Debit	Credit	Debit	Credit	clerk	ler	Bookkeeper
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	20,000	30,000	-	160,000			
2							
3							
etc.							
11							
12							
12-day total							
etc.							
24-day total							
etc.							
30							
31							
Total for month							
Total since be- ginning of year							

Interest
numbers

On 1st of current month
During current month

Total Since beginning of year
for quarter

The summary card contains lines "12-day total" and "24-day total". They make it possible to do the addition in stages and place the subtotals on the lines provided for this purpose. Thanks to this feature, the computing work on the cards at month end, when the accounting and operating organization is heavily loaded with the bookkeeping work, is confined to adding the figures for only the last few days to the subtotals already obtained.

After the summary card has been prepared, the first part of the proof of the analytic accounting work against the synthetic begins. The operator and journal clerk compare the turnovers shown on the summary card with the total of the turnovers passed through the journal to the balance-sheet or non-balance-sheet account involved. The identity of these turnovers is vouched by the journal clerk's notation on column 6 of the summary card and by the operator's notation in the journal under the total shown for the control account in question. The operator submits the summary card with the journal-clerk's mark to the controller, who verifies its accuracy -- in our example -- by adding the credit turnovers for the day to the previous balance and then subtracting the debit turnovers for the day. The balance so determined must agree exactly with the balance obtained by adding the detail accounts.

The second stage of this proof of analytic against synthetic accounting work reduces down to establishing the respective equalities between the turnovers and balances shown on the summary cards for a given balance-sheet account with those shown for the same amount on the proof sheet.

The controller, on the one hand, and the chief bookkeeper, on the other, mutually compare these figures and vouch for their identity by placing their initials in columns 7 and 8, respectively. The card is then returned to the operator.

In those operations for which analytic journals are kept instead of customers' accounts, the preparation of the summary card is especially easy. The turnover and balance figures are simply transferred to it from the journal. Such a summary card is proved by the procedure we have just described. It must be remembered that the balance shown in the analytic journal itself constitutes the aggregate of open amounts which have not yet been transcribed. For this reason such open items are totalled daily to make sure that they agree exactly with the balance of the analytic journal. The explanation of the system of daily proofs of the accuracy of the analytic accounting work would be incomplete without mentioning what are termed balance control sheets (or cards). Proof of the analytic accounting work against the synthetic makes it possible to establish the accuracy of the turnover and balance totals for the customers' accounts belonging to a given balance-sheet account. It does not, however, disclose the existence of mutually compensating errors within the same balance sheet account, ^{when} the balance of ~~when~~ one customer's account has been erroneously increased and the balance of another account erroneously reduced by the same amount.

This is the reason ~~why~~ the controllers (In certain cases the task of filling in the balance control sheet may be entrusted to other employees, including the account clerk who handles the detail accounts involved. In this case the controllers are obligated to

check the accuracy of the balance control sheets by comparing the balances shown on them with those shown on them with those shown by the detail accounts. In all cases the controller has custody of the balance control sheets.) keep the above-^{mentioned}~~mentioned~~ balance control sheets to assure proper control of the entry of the opening balances in the customers' accounts by the operations clerks. The closing balances of all detail accounts belonging to a given balance-sheet account are entered daily in these reports.

The totals of these sheets are proved against the balances of the corresponding balance-sheet accounts which are shown on the summary cards. Balance control sheets are not kept for all balance-sheet accounts, but only for those in which errors in the balance of any detail account might result in loss to the Bank. Such accounts consist in the first place of customers' clearing and current accounts, together with a few other analytic accounts.

See form "Balance control sheet" on following page

Form 5

BALANCE CONTROL SHEET FOR THE BALANCE-SHEET ACCOUNT

"Nktyazmmasm Enterprises -- clearing accounts" for March 1945

Date	"Bogatyri" Plant No 38300	"Burevestnik" Plant No 38301	Plant Imeni Voroshilov No 38302	"Krasniy Oktyabr" Plant No 38303	"Proletariy" Plant No 38304	Plant Imeni Stalin No 38305	Total for the balance- sheet account	Controller's mark
March 1	1,000	3,000	2,000	4,000	6,000	5,000	21,000	
2	-	3,000	-	3,000	-	-	22,000	
3	-	-	3,000	-	-	7,000	25,000	
4	4,000	2,000	1,000	-	0	12,000	28,000	
5	5,000	-	2,000	-	-	14,000	32,000	
			and so on					

When these control sheets are filled out, the balances of inactive accounts are not repeated again. This saves work. To compute the total balance for all of the detail accounts, the last balances entered on the control sheet must be taken. Thus, for instance, the aggregate balance for March 5 on the control sheet shown is figured by taking the following balances of the detail accounts: $5000+2000+2000+3000+6000+14000 = 32000$.

The aggregate balance must correspond, as has been said above, to the balance of the balance-sheet account shown in the summary card, which in turn is proved against the proof sheet. The controller certifies completion of this proof by signing the summary card and the balance control sheet.

Thus the balance control sheet constitutes:

- (1) a means of proving the detail account balances (analytic accounting work) against the balance-sheet account balances (synthetic accounting work).
- (2) documentary proof of the execution of the mutual check between analytic and synthetic accounting work;
- (3) the most convenient material for the entry of interest numbers.

This exhausts the list of the daily bookkeeping checks of the figures of the analytic and synthetic accounting work.

A more simplified verification procedure is also authorized by the Head Office of the State Bank, in cases where the balance

control sheets are filled out by the operation clerks. It is as follows: the operations clerk who fills in the total turnovers computed by adding the detail account figures, on the summary card, computes the closing balance by machine addition and subtraction of the corresponding turnovers. The summary card is subjected to preliminary proof with the journal clerk, and remains with the operations clerk. The controller verifies the procedural accuracy of the balance control sheet, foots it, and proves the total against the balance shown on the summary card. The identity of these balances is certified by the signature of the operations clerk on the balance control sheet, and of the controller on the summary card. The balance control sheet is also signed by the controller. This procedure frees the operations clerk from the work of footing the detail-account balances, and at the same time compels the controller, who does not receive the summary cards in advance and thus does not know the control figures, to perform an independent footing of the balances shown on the balance control sheet.

The check with the proof sheet is also made in this case according to the above-described procedure.

The monthly mutual proof of the analytic accounting work against the synthetic. Monthly, on the 1st of each month, a general check of all detail accounts against the figures of the synthetic accounting work is made by preparing a check sheet. A check sheet is a list of the balances, as of the 1st of the month, of the detail accounts that belong to a given balance-sheet account.

The total of such a sheet must be equal to the balance of the balance-sheet account involved as shown on the monthly proof sheet. the form of the check sheet is as follows:

[See sample check sheet on following page]

The form of the check sheet is simple, and calls for no explanation as to the manner of filling it out. For the resource-or-liability accounts, the check sheet is prepared not only on the basis of the final balances, but also with the inclusion of the monthly turnovers.

Check sheets are superfluous for those accounts for which balance control sheets are prepared. The latter, as is generally known, are made up daily, so that on the last day of the fiscal month they would differ in no way from the check sheets.

The use of "DSM" machines for making up the balance control sheets and check sheets represents an immense technical facilitation of the work.

9. EXTRA-SYSTEM ACCOUNTING

In addition to the regular bookkeeping accounts, the State Bank also employs a special method for registering the accounts: namely, extra-system or external accounting.

It is called extra-system because the entries made do not pass along the established system of bookkeeping accounts; they are reflected neither in the journal, nor in the balance sheet of

Number of Detail accounts

Title of Organizations

January 1

February 1

March 1

April 1

May 1

June 1

July 1

August 1

September 1

October 1

November 1

December 1

Balance of account on

CHECK SHEET

Form No 6

the bank, nor in the non-balance-sheet accounts.

The State Bank handles outside the regular system such items, for instance, as the tentative or estimated credits set up for future administrative and management expenses of the Bank. These indices are of very great significance. However, their registration under the extra-system procedure does not afford the same degree of assurance that the entries will be correct as is the case with the balance-sheet system work. For this reason the State Bank has commenced to take measures to include in the systematic bookkeeping accounts the indices which were registered under the procedure of the extra-system accounting. For instance, the credits opened for the state budget are already being handled under the ordinary bookkeeping procedure and are reflected in the non-balance-sheet accounts "Union budget credits" and "Budget credits of the SR republics".

The extra-system registration of indices connected with a definite operation is customarily carried out in the same detail accounts that are concerned with the operation in question. The entries are made either in the caption (title) part of the account, or in special columns. The registration of the estimated credits for administrative-management expense may serve as an example of the first variant, while the registration of financing plans for agricultural organizations executed for the account of the Sel'k-hozbank, is an example of the second variant.

Inasmuch as the principles of control by the bookkeeping records themselves are not employed in extra-system accounting, such

accounting demands exceptional attention and accuracy on the part of the account-workers who handle such accounting. The entries in extra-system accounting are verified by the controller under the established procedure (cf. Chapter IV).

10. METHODS OF CORRECTING ERRORS

In spite of the control system used, errors always creep into the accounting work in isolated cases. These errors, as a rule, are discovered on the same day, before the work for the day has ended. Sometimes, however, they are discovered only after the journal and proof sheet have already been closed out. Depending on the time of discovery, therefore, the following two methods for correcting errors have been established.

In the first case, when the error is discovered before the operating day has ended, there is no particular complication involved in its correction. If the amount of the entry is entirely superfluous, it must be crossed out, and the notation made on the blank space beside it "Do not count". If a larger or smaller amount than the erroneous item is required, it is crossed out and the correct amount entered underneath it. In both cases the correcting notation is signed by the worker who makes it and by the controller. A correction of an entry made in a detail account and in the abstract of such account is certified, in addition, by the signature of the chief bookkeeper. All such corrections and signatures must be made in red ink.

It is more complicated to correct an error that has been

discovered after the synthetic accounting work has been closed out. In this case recourse is had to the bookkeeping procedure whereby the erroneously entered sum may be neutralized by making a correcting entry on the opposite side of the account.

Neither in the synthetic nor the analytic accounting work of the State Bank are the correcting ^Aturnovers separately recorded, but are merged in the substantive turnovers. This is the weak side of the method of correcting errors that has been adopted by the Bank. The fact that the correcting turnovers are set up in a separate book of memorandum adjustment orders, and copies made which are afterwards kept in the custody of the Chief Bookkeeper, makes no essential difference in the situation. The Bank's abandonment of the more advanced procedure of correcting errors by means of reversing entries in red, thus eliminating the incorrect and correcting turnovers, was due to the excessive complexity of using this method with accounting-analytic machines.

11. ACCOUNTING MACHINES USED IN THE STATE BANK

The successful employment of various accounting machines is possible in different fields of State Bank work. First of all simple footing (addition), or footing of items of opposite sign (debits and credits) can be done on machines and a balance struck. This is an activity which occupies a prominent place in the accounting work of the State Bank. The simplest machines can be used for footings -- the comptometer, "Berrous" [Burroughs] or our own "DSM", made in USSR. Without setting ourselves the task of describing all machines in detail, we shall merely touch on a few

of them very briefly, along the most general and basic lines.

The "DSM" is a 10-key machine with only 10 figures signs from 0 to 9. It is most convenient for addition, but subtraction can also be done on it, though not so simply. It not only foots the items but also prints all items footed and their totals. This makes it possible to check the proper inclusion of any item in the total. Thanks to the small number of keys and the automatic line shift, the design allows rapid footing and printing of all items by the touch typing method, without looking at the keyboard. The figures are printed in a single column. The machine has special devices for disengaging the printing mechanism, disengaging the calculating mechanism, setting the machine for subtraction, for repeating an item (for multiplication), and for printing increasing subtotals and the total.

Thanks to this the area of application of the "DSM" (Comrade Varnakov, mechanic at the Ivanov Regional Office of the State Bank, constructed a movable carriage for the "DSM" and adapted the calculating mechanism to strike a balance. This reconstruction, which is not complicated, transforms the "DSM" into a very simple accounting and bookkeeping machine, on which a number of rows of figures may be printed and a balance struck. Unfortunately the war interfered with the realization of Comrade Varnakov's invention: the experimental model was never put into production.) machine has considerably expanded. Thus by the use of a special device (Limanov) the machine can be set to foot alternate items, instead of all of them as printed. By using this device, the

machine can be used not only for footing but also for making the primary entries, consisting of a list of document numbers and amounts of separate operations, to the customer accounts or in the journal. The entries will have the following form:

148 U	(document number)
2,200	(amount)
152 U	(document number)
2,300	etc.
5,500	(total)

The productivity of the "DSM" may be judged by the fact that it can add over 2000 five-digit numbers per hour, as compared with 700-750 by manual calculation.

Figure 1 (p.49) The 10-key "DSM" adding machine
 1: paper holder (top frame). 2: ribbon spool. 3: crank. 4: total key. 5: Subtotal key. 6: Changeover slide for shifting from hand operation to motor operation. 7: Correction key for taking out last figure set. 8: Subtract key. 9: Figure keyboard. 10: Motor key. 11: Disengage Register key. 12: Repeat key. 13: Key for correcting (taking out) setting. 14: Release key. 15: Disengage Printer key.

The daily turnovers on the separate detail accounts may be added on auxiliary adding machines.

Auxiliary adding machines may be used, with excellent effect on productivity, to foot the daily turnovers on the separate

customer accounts, the combined turnovers on all customer accounts, embraced in a single balance-sheet account, the total balances in the various customer accounts of a single balance-sheet account, and the various proof sheets and control sheets.

Accounting-typewriting bookkeeping machines can do more varied and more complicated work. Such machines include: "Astra", "Gerts" [Hertz], "Mersedes-Addelektra" [Mercedes-Addelektra], and others. One of them, the "Aastra", has ten keys, while others ("Hertz") have more. The "Aastra", has one register (for table machines) and 7 (or more) for the Multiple model (see figure 2). Other machines also have a number of registers. "Mercedes" has 8 or more. "Hertz" has 4. These machines have wide carriages, allowing the items footed to be arranged in several columns if desired. Figure 3 gives an idea of the "Mercedes" machine.

The special system of operating accounting-bookkeeping machines makes it possible to shift their wide carriage over to the place on the accounting blank -- for instance, of the customer account -- at which the entry and footing is required. This feature permits use of this type of machine for making bookkeeping entries which are arranged in several columns. The registers of the machine are adapted for footing certain data, for example, the debit turnover of a customer account, or the debit and credit turnover of a customer account, also striking the balance, etc. Accounting-bookkeeping machines, when properly constructed and skillfully operated, make it possible well and efficiently to keep the journal, prepare the customer accounts and strike their

balances, foot interest numbers and handle other bookkeeping work. A special feature of the "Samokontrol'" [Auto-control] machine should also be noted. When an incorrect total appears, the machine either stops or fails to show the signal indicating accuracy of the result. A number of changes in documentation and document routing are usually caused by the use of accounting machines. Details will be found in Section 13.

Figure 2 (p. 50) "Astra" calculating and posting machine.

1. Visible main balance register. 2. Middle (wide) motor key for horizontally shifting the carriage. 3. Left motor key for vertical shifts of roller. 4. Right motor key for omitting (skipping) the columns not required for the particular job. 5. Tabular key for shifting the carriage from left to right to any desired column. 6. Register control lever. 7. Levers for dating. 8. Levers for entering symbols. 9. Figure keyboard. 10. Total key for balance register. 11. Subtotal key for balance register. 12. Total key for cumulative registers. 13. Subtotal key for cumulative registers. 14. Subtracting lever. 15. Crank for hand operation of machine.

Figure 3 "Mercedes-Addelektra" Calculating-typewriting machine.

1. Lever to engage and disengage electric motor.
2. Horizontal registers.
3. Figure keyboard for posting.
4. Keyboard.
5. Tabulator keys.
6. Figure keyboard for calculating.

7. Lever to engage and disengage the calculating mechanism.
8. Buttons for setting the nature of the calculation for the vertical register: addition, subtraction, and inoperative.
9. Vertical registers.
10. Indicator scale for vertical registers.

12. CENTRALIZED AND DECENTRALIZED PROCEDURE FOR UTILIZATION OF MACHINES

Bookkeeping machines may be used under both centralized and decentralized procedures. In the former case they are collected together in a special section or shop for mechanized accounting, located outside the operations room. All bookkeeping documents are turned over to this section or factory, and, based on them, the postings to the customer accounts and the general journal are made by machine during the evening or night. In the case, i.e. with the decentralized use of machines, they are located in the operations room itself; each machine is assigned to a designated group of operative workers, and the postings to the customer accounts are made during the course of the machine operations based on the bookkeeping documents.

In centralized machine accounting the bookkeeping documents, especially the posting memos, are prepared not in one single copy, but in as many copies as there are accounts to be posted. The whole set (all the copies of the document) is routed in the established sequence through the various groups (brigades) concerned, and is then sent to a special brigade "control and dis-

patch of documents" which verifies the existence of the required number of copies and of identity between them. During this process it is posted to the customers' account on the basis not necessarily of the original document but, for greater speed, on the basis of any copy duly attested by signatures. Each copy of the document shows the account to which it is to be posted. Usually the original is used for posting to the account to be charged, while the second copy is used for the account to be credited. In view of the fact that the nature of the operation is designated in the customer's account by a conventional digit, second copies of the documents are annexed to the customer's copy to explain the credit entries. [Except for the cases mentioned on p.89, no explanations are appended for the debit entries.]

It is clear from what has been said that the existence of a sufficient number of copies of documents, and the identity of such copies, takes on particular significance, since the absence of any copy or its disagreement with the others unavoidably produces divergence in the entries and makes it difficult to prepare a balance sheet. From this arises the necessity of checking the number and mutual identity of copies of the document -- a check which is entirely unnecessary for the operation itself. Unnecessary check points naturally increase the cost of the accounting work. The fact that this step increases the consumption of paper also cannot be overlooked. When the use of machines is decentralized, the customers' accounts are posted only on the basis of the original documents. It is true that second copies are also required here as well, for the customer's copy of the account, as well as to assure

the most speedy preparation of the journal (if it is posted by machine, not by hand) but in this case, however, such copies are not detached from the originals before they are turned over to the journal clerk.

We shall describe in the most general terms the operation, for instance, of putting through a transfer from a customer's clearing account serviced by one brigade to a customer's clearing account serviced by another brigade, under decentralized machine accounting. The operating clerk of the first brigade, after verifying the document and finding it possible to make the transfer, inserts the document in the account, between account sheet and copy, and hands it to the operator of the bookkeeping machine. The operator makes sure that the document really refers to the customer's account in question, places the account form in the machine, posts the transaction, enters the new balance, and delivers the account sheet and document to the controller. On convincing himself of the accuracy of the entry, the controller returns the account sheet to the operating clerk, and routes the document to be credited to the customer's account of the other brigade, whence it is routed by an analogous course to the journal.

Thus in decentralized machine accounting posting to the customer's account is an inseparable part of the operation; and in executing it the operator exercises, among other things, the function of control.

Under this system the conduct of the customers' accounts and that of the journal cannot be combined into a single working

yielded positive results which testify to the expedience of the decentralized employment of bookkeeping machines; a certain incompleteness of utilization is more than made up by operative efficiency and simplicity (in the sense of being closest to manual operation) of the accounting work, thus assuring completion of the balance sheet under all circumstances on the same day, with a smaller staff than required by centralized machine accounting. It is precisely for these reasons that decentralized use of bookkeeping machines is widespread in the branches of the bank, in spite of certain negative features it involves.

The proof of the analytic accounting work against the synthetic is made in the usual way (see section 8) when decentralized machine accounting is used.

The posting of the detail accounts and journal on bookkeeping machines in special sections or factories of mechanized accounting (during the evening or night, after completion of operations) exerts an immense influence on the entire course of operative and accounting work. Under these circumstances, operative staffs, a peculiar kind of abbreviated detail account, must be used in the operative brigades in place of the detail accounts themselves. Execution of these operations would be unthinkable without these staffs. The documents (corresponding copies) are sorted in the machine processing section according to the corresponding accounts. The entries are copied into the detail account, and a journal, subdivided according to balance-sheet accounts, is automatically obtained.

process, but must be handled separately, as with manual accounting work. This is one of the substantial disadvantages of the decentralized method. The journal is kept by hand, separately from the customers' accounts, under the usual procedure (using the checkerboard or American type) with the help of either the "DSM" or bookkeeping machines. In practice there are several different variant forms of journal for use on bookkeeping machines. There is still no single more or less generally accepted form. The journal work is done almost simultaneously (an hour or two later) with the execution of the operation and must under all circumstances be completed by the close of the same working day.

A second fault of decentralized machine accounting is the fact that the machines are not worked at full load, owing to the uneven distribution of the stream of operations on different days and even during the course of the same day, from which follows the enforced idleness of the operator on days and hours of "quiet", along with some delay in the posting during days and hours of peak load. The loss of time caused by the mere or less frequent change (insertion and removal) of the detail accounts sheets of various clients must also be attributed to the same cause. This loss of time results in incomplete utilization and machine underload (running approximately to 16-18 percent). But, on the other hand, the operative efficiency of the accounting work is fully maintained, and thanks to this there is no need for the operative staffs which are indispensable in centralized machine accounting.

It must be said that the experience of many branches has

Consequently there is no special form for keeping the journal, but it is an automatic copy of the entries in the detail accounts. This automatic production of the journal, simultaneously with the posting of the detail accounts, is one of the strong points of centralized machine accounting. All that is necessary to get the journal automatically is the correct distribution of the registers on the machines. Thus, in working with the "Mercedes-Addelektra", some of the vertical registers foot the debit turnovers on the balance-sheet accounts (one full register and one empty register, which does not add, but merely controls the horizontal registers on the sides and is located at the place where the turnover totals for the day are printed, while others (likewise one full and one empty register) handle the credits to the balance-sheet accounts, and still others add the old and new balance of all customers' accounts within the confines of each balance-sheet account. All the vertical registers supply figures for the journal, which are obtained by copying off the entries. At the same time each figure appearing in the vertical registers is reflected in one or both of the horizontal registers. These horizontal registers foot the debit and credit turnovers and strike the balance for each customer's account. The figures from the horizontal registers are posted into the vertical columns. In work with the multi-register "Astra", the balancing register (i.e. the one that does addition and subtraction), which has an aperture and indicates whether it is adding or subtracting, foots the turnovers and strikes the balances for the customers' accounts. This register works simultaneously with one of the accumulative registers that can only add and accumulate sums. Consequently the work is distributed as follows among the seven registers on the machine:

A. BALANCING REGISTER

B. ACCUMULATING REGISTERS

I	II	III	IV	V	VI
DEBIT		CREDIT		BALANCE	
Customer's	Balance-	Customer's	Balance-	Old	New
Account	Sheet-	Account	Sheet		
	Account		account		

The totals for the journal are accumulated by registers II and IV.

In work with the "Gertz" [Hertz] machine, two balancing registers foot the turnovers and strike the balances for the customers' accounts, while two others accumulate the debit and credit totals for the balance-sheet accounts, i.e. service the journal.

Thus the analytic accounting is completely mechanized, while the synthetic accounting is only partially mechanized -- with respect to keeping the journal. The proof sheets may be prepared on these or simpler machines, or by hand.

Inasmuch as the work on centralized bookkeeping machines is performed after the banking operations have been completed, a special proof of the machine-posted customers' accounts is necessary to make sure that the machine balances coincide with those shown on the operative staffels. The accounting done on the machines duplicates and to some extent also supplements the operative accounting. A duplication of work results, and a control, superfluous under other conditions, is established. A customer's account-sheet cannot be used immediately after completion of an operation, and the fact that it is posted only subsequently results in additional work to check it and safeguard it. Such work is superfluous under other operating conditions. Moreover, in connection with the fact that the posting of each contra-account is based on a separate copy of the bookkeeping document, and that the accounting is done in an entirely different section from that where the operating work is done, divergences or spreads may occur

between a debit and credit turnover, thus making it impossible to prepare the balance-sheet. Branches under centralized machine accounting frequently have trouble in getting a balance-sheet.

13. PECULIARITIES OF MECHANIZED SYNTHETIC AND ANALYTIC ACCOUNTING

The accounting work is usually not mechanized for balance-sheet accounts which have no detail accounts, such as "Cash", "MFO Initiated", "MFO Contra", etc., nor for certain other balance-sheet accounts. Thus a more or less significant portion of the accounting work is not performed on machines. Under centralized machine accounting such unmechanized accounts are journaled first (on the basis of documents). This operation is divided as follows: all the debit documents for each such balance-sheet account are entered in the corresponding column and footed; then all credit documents are printed in a separate column to the right, and footed. After this the turnovers on the mechanized balance-sheet accounts are posted and footed in the same order; but the customer's account is put through the machine in front of the journal, and the journal is obtained as a copy of the postings to the customer's account.

The journal for the non-balance-sheet accounts is kept by hand, for it would be otherwise impossible before machine posting had been completed to prove the balances of the valuables in the vault register against the figures of the synthetic accounting.

As has already been recalled, the postings to the customers'

accounts made by centralized machine accounting are carefully checked by the controller of the machine accounting section. He proves them against the documents, without concerning himself about the substance of the latter, but confining his examination to a verification of the presence and genuineness of the signatures of the proper and authorized bank personnel. He then proves the balance of each account against the balances shown by the balance control sheet, which is separately prepared on the "DSM" machine and contains a list of the customer account balances taken from the customer account staffels, together with their total. He thus collates the figures from the operative staffels with those of the customers' accounts and is compelled to account for all discrepancies he finds. After checking, the customer's account sheet and its transcript are both certified by a stamp signed by the operator and controller; the enclosures for the transcript are annexed to it, and it is then routed for forwarding or delivery to the customer. Since the journal entries for a given balance-sheet account have already been audited by the controller (simultaneously with the audit of the customers' accounts), he also places his signature opposite the total of the turnovers for that balance-sheet account and transcribes the amount to the corresponding summary card. On the same card, in the "Balance" column, he enters the grand total from the balance control sheet in his custody. Thus the summary card for each balance-sheet account is filled in, and it only remains for the controller to verify whether the account balance carried forward to the following day has been correctly footed, that is, whether it results from the opening bal-

ance for the given day taken together with the turnovers during the day.

For accounts that are not posted by machine, the bookkeepers take the total turnovers from each customer's account. These totals are then footed again on the "DSM" machine for each balance-sheet account.

The controller of the machine accounting section enters the turnover figures for each balance-sheet account on the summary card for that account and compares them with the figures shown by the journal. Any discrepancies found must be eliminated and their causes established.

A special certificate is made out in two copies for each discrepancy between the journal and the operative staffels or the customers' account sheet not processed by machine. In this certificate the bookkeeping section and the chief bookkeeper elucidate all the errors that have been allowed to occur and jointly determine the guilty parties. The chief bookkeeper makes sure in this way that the bookkeeping section confirms and recognizes its mistake.

The customers' staffels and the customers' account sheets made up by hand are returned to the operative brigades before the beginning of operations. The controllers of these brigades must check the agreement of the balances shown by the staffels or customer-account sheets with those on the balance control sheet, before operations commence. Only after this has been done can the opera-

tions of the new day be posted.

After the controller of the machine accounting section has filled out all the summary cards of the balance-sheet accounts, he has only to make sure that the grant total of all posted debits agrees with that of all posted credits. For this purpose the debit and credit turnovers are separately footed on the "DSM" machine for all balance-sheet-account summary cards (printing account numbers and amounts). The totals of these two separate footings must completely agree. If such agreement is not shown, it is necessary to find and eliminate all discrepancies and errors. This frequently proves to be a laborious and time-consuming task which delays the preparation of the balance-sheet.

The daily proof sheet is prepared from the summary cards for the balance-sheet accounts, checked by collation with those cards and signed by the chief bookkeeper.

14. USE OF ACCOUNTING ANALYSIS MACHINES

The production of the most complex accounting analysis machines has been fully mastered in the USSR. All the component parts of the complete set of machines for this purpose are manufactured here -- card-punch, verifier, sorter and tabulator. The card punch is a machine by which punched cards are prepared from the usual bookkeeping documents. These are special cards on which all the necessary data are expressed by perforations at certain places instead of figures. A card-punch is shown on Figure 4, and a punched card on Figure 5.

Figure 4 (p.57) Card-punch of SAM Plant

1. Receiving rack for blank cards.
2. Figure keyboard.
3. Key for single passage of card.
4. Punched cards.
5. Perforator carriage.
6. Frame for model of punched card.

The verifier is a machine to test the accuracy of the punching. It resembles the card-punch, but only puts its pins through the holes in the card without punching it. Therefore if a hole has been punched in the wrong place, the verifier stops, thus signalling the inaccuracy of the punching.

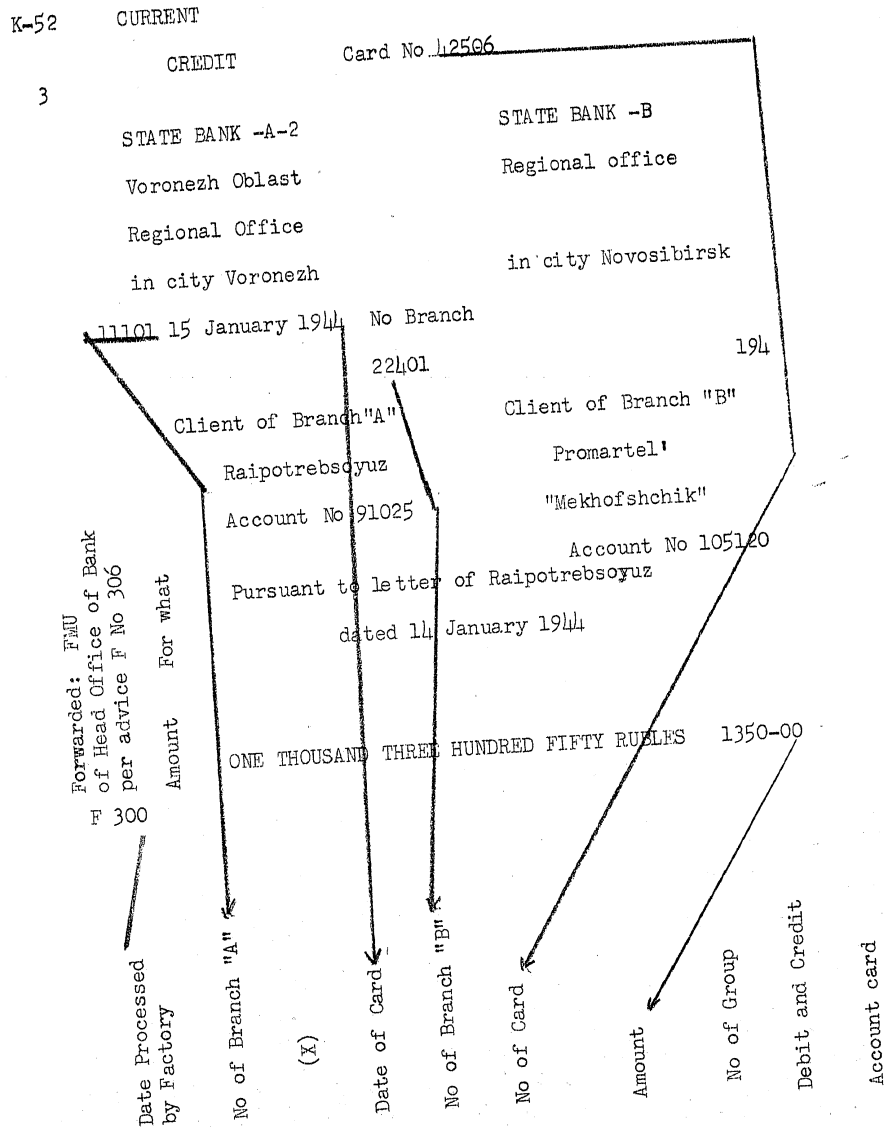
The sorter (Figure 6) is a complicated, high-speed machine, handling about 24,000 cards an hour. It sorts and distributes punched cards into predetermined groups, either mechanically, by passage of pins through the holes in the cards, or electrically, by passage of an electric current through the same holes.

Finally the tabulator (figure 7) is a still more complicated machine that totals the sorted cards and prints the indices on them, together with subtotals and totals. Its productivity is likewise enormous.

Analytic calculating machines are used only in the centralized procedure. With their help the depth, completeness and versatility of the processing of the accounting data can be significantly increased. The colossal productivity of these machines

FIGURE 5

THE SCHEME OF THE PUNCHED CARD



(X) Telegraphic or postal normal correction /days in transit/

allows performance of a large volume of accounting work and servicing even the largest offices of the bank.

[See Figure 5 (page 58) The Scheme of the Punched Card
on the ~~following~~^{preceding} page]

Figure 6 (page 59) Sorter

1. Motor
2. Compartments for sorted cards
3. Feed magazine for cards.
4. Commutator for cutting out individual compartments.

The documentation and document routing is the same with analytic calculating machines as it is with centralized machine accounting. "Detail -account positions" are kept in the operative brigades together with the staffels. After each operations such positions, which are kept separately by the bookkeeper and controller, show only the new balances (positions). The punched cards required for machine posting to the detail accounts are prepared from the original bookkeeping documents (first copies). These punched cards are sorted and tabulated but according to both account debited and account credited.

Punching is the slowest process and absorbs the most labor. 65-70 percent of all the expense of running analytic calculating machines is attributable to this item. The data on the turnovers and balance of each account is punched on separate cards, from which detail account sheets, journal, proof sheet position sheets,

cash-plan-fulfillment sheet, interest-number sheet and similar accounting documents and sheets are prepared. The printing of the journal, under this procedure, does not take place simultaneously with that of the detail-account sheets, as is the case when bookkeeping machines are used, but in separate processes.

Figure 7 (p. 60) The "SAM" Tabulator

1. Main motor.
2. Lever for automatic starting of main motor.
3. Lever for automatic starting of auxiliary motor.
4. Lever for grand totals.
5. Lever for subtotals.
6. Lever for printing the values of each card in the six calculating sections.
7. Main motor starting button.
8. Stop button.
9. Auxiliary motor stop button.
10. Card feed.
11. Commutation plate.
12. Shift lever for printing the indices of each card or the totals.
13. Printing mechanism.
14. Registers.
15. Auxiliary motor.

CHAPTER IV

PRINCIPLES OF DOCUMENTATION, DOCU-
MENT ROUTING AND INTERNAL CONTROL

1. THE GENERAL CONCEPTS OF BANKING DOCUMENTATION

The correct operating and accounting work of any enterprise or institution depends to a considerable extent on the quality of the documentation, the organization of the document routing and the arrangements for control. The rapidity and efficiency of the settlements between the various links of our huge socialist economy is mainly dependent on the system of documentation, document interchange and control.

For this reason it is not hard to imagine how important these conditions are in the work of the State Bank USSR, where hundreds of thousands of documents of various kinds must be processed daily.

By banking documentation we understand the aggregate of the various forms of documents that circulate in the State Bank.

Each operation completed by the State Bank is necessarily formalized by a bookkeeping entry based on the corresponding document of the given operation.

One of the methods of facilitating the processing of the huge number of documents is their standardization and typicalization. In this context the State Bank has tried, and still tries, to have all the documents that circulate within prepared on forms of prescribed size and shape, and to have the requisites on each

form -- i.e. the constant characteristics: date, number, account title, etc. -- arranged in a strictly predetermined order.

The obligatory requisites of each document are: title of the State Bank office where the operation is performed, date (day, month and year), amount (in figures and in letters), substance of the operation, name of the customer, number of the balance-sheet account and customer's account, customers' signatures on documents presented to them by the Bank, and, finally, the signatures of the officers of the Bank who have authorized the operation, and put it into formal shape.

To facilitate the utilization of documents and accelerate their routing to destination, the State Bank has adopted the custom of printing various forms on paper of different colors. If these documents are made out in several copies, each separate copy of the form in the set or manifold is printed in a different color.

2. THE MAIN FORMS OF DOCUMENTS

All the documents received, drawn up and sent out by the offices of the State Bank may be divided into the following six basic groups:

- (1) documents of a directive character;
- (2) credit-plan documents;
- (3) operative and settlement cash documents;
- (4) operative and settlement posting memo and documents involving non-balance-sheet accounts;
- (5) documents on administrative and internal management operations;
- (6) other documents and general correspondence.

The first group consists of directive material from the superior institutions of the State Bank, i.e. instructions, orders, and the like.

The second group of documents includes: planned and reported balances of Khozorgany, conclusions on analysis of these balances, credit applications, limit letters, and other material of credit-planning character.

Cash documents, on the basis of which each is accepted or disbursed, belong to the third group, together with those involving the acceptance, safekeeping or return of various valuables and securities.

The fourth group comprises documents that serve as the basis for the execution of every type of clearing transfer from the account of one Khozorgan to the account of another, both in local and out-of-town settlements, as well as transfers from one account of a Khozorgan to another account of the same Khozorgan, for instance, from its loan account to its clearing account (when a loan is granted and then credited to the clearing account). Non-balance-sheet orders for acceptance of valuables and documents, and for charging them off for delivery, also belong to this group.

The fifth group includes documents relating to estimates for administrative and operating expenses, to the personnel of workers in State Bank institutions, and to internal dispositions. Contracts for supply of fuel, etc. and correspondence on purchases for building operation and housekeeping, etc., also belong to this group.

The sixth group includes correspondence with other State Bank offices, clients, and local authorities. It also includes clients' applications to open accounts, powers of attorney for execution of operations in the Bank, etc.

The cash, posting memo and non-balance-sheet documents occupy the basic position in banking documentation. We shall concern ourselves henceforth with these documents only to the extent that accounting entries result from them. Among the cash and posting memo documents belong the various kinds of documents which are presented by clients to formalize their transactions as well as those drawn up by the State Bank itself to authorize account entries. In this connection cash and posting memo documents are divided into external and internal.

External cash documents include deposit slips and checks.

Deposit slips are made out in the State Bank to formalize the acceptance of cash. They thus constitute incoming cash documents, and consist of a set of two blanks, of which one is called a deposit slip and the other a receipt. These forms are shown on page 64.

The deposit slip and receipt are filled out by hand by the client. It must be done in ink. After the cash has been accepted by the teller, the customer's account is credited with the amount on the basis of the deposit slip. The receipt is formalized by the bank signature and the teller's stamp and is then delivered to the client as evidence of the deposit.

Cash checks are the basic outgoing cash documents. A check is an order of a customer to an office of the State Bank to pay out of the customer's account the sum specified in the check. Checkbooks are manufactured by the Goznak and belong to what are termed "blanks of strict accountability". Checkbooks are recorded in the State Bank in non-balance-sheet account No 481 "Blanks of strict accountability".

The amount in words and figures, date, name of payee and signature of the maker are written in ink by hand. A check is valid for only ten days, not counting the day of issue. If the last day falls on a non-working day, the check will be paid on the following working day.

pages 121-123
[See ~~following pages~~ for copies of forms]

Under our conditions there are two forms of checks, checks to a named payee and checks to bearer. An example of a check to a named payee is given on page 62.

If the given name, patronymic and surname are left out of this check, it is converted to a bearer check. The text of a bearer check might also read: "Pay to the bearer such and such an amount".

On the reverse side of the check (usually signed by the client's chief bookkeeper) the purpose for which the check is drawn is stated for instance: "Wages", "Other forms of payment for labor, and stipends", "Selkhozzagotovki", "Travelling allowances",

"Overhead and operating expense and other costs". This information is necessary first of all so that the bank may check up the expenditure of the cash received from it, and also is required for the accounting on fulfillment of the cash plan.

On the reverse of the check the bank makes the following notation:

BANK ORDER

PAY (date) 194-

(signatures of bank employees: first and second)

Paid: _____

(signature of bank cashier)

The cash orders (both receiving and paying) on the basis of which cash is accepted or paid out are considered the basic internal cash documents.

The form of the cash orders used in the Bank's practice is close to that of the generally accepted standard form of cash order.

Among the external posting memo documents and principal are cross checks, transport settlement checks, payment instructions, letter-orders, lists, loan applications, etc.

Crossed checks and transport crossed checks are manufactured by the Goznak, like cash checks, on special paper, and also belong to the blanks of strict accountability.

Form No 8
No 379492 BK

Moscow City Fuel Trust

Mosgortop

Clearing account

No 168020

In the Cashier's Office

Control Stamp

This check is valid for ten days, not counting the day of issue

Check No 379492 BK

For 8200 Rubles - Kopeks

Place for pasting
on control stamp

Moscow 25 February 1944

Moscow City Regional Office

State Bank USSR

(L.S.) Pay to Stepan Yakovlovich Yakovlov

Eight Thousand Two Hundred Rubles

Director
of Mosgortop (Signature)

Chief
bookkeeper (Signature)

Form 7

City K/O of State Bank in Moscow

Statement of Deposit in Cash

Date 26 February 1945

Moscow City Office of "Soyuzutil"

(From Whom)

For Credit to Clearing Account No 50059

(Clearing/Current)

The Same

(Name of Payee)

Account of Payee

Roubles 1425-30

(Amount in Figures)

For What: Wages not paid out

Amount Rubles

(in words)

One Thousand Four Hundred

Twenty Five Rubles 30 Kopeks

Signature of Payor _____ (Signature)

Cash accepted by Cashier _____ (Signature)

Posted to balance-sheet account No

Debit Credit

18 50

Auditor

Operationist

Journal Clerk (Signatures)

Tellers Stub

Received on Deposit Slip B - 1,425-30

For credit to Account No 50059

Auditor _____ (Signature)

This is the margin for loose leaf ring holes

Form 7 Continued

City K/O of State Bank in Moscow

Receipt for Cash Accepted

Date 26 February 1945

Received from Moscow City Office of Soyuzutil'"

(From whom)

For Credit to Clearing Account No 50059

(Clearing/Current)

The Same

(Name of Payee)

For What: Wages not paid out

Rubles 1,425 - 30

(Amount in Figures)

Amount Rubles

(in words) One Thousand Four Hundred Twenty-

Five Rubles 30 Kopeks

This is the margin for loose leaf ring holes

1. The State Bank is not Responsible for Currency Directly Deposited in the Cashier's Office without Passing through the Operations Division.
2. This Receipt Must Bear Three Signatures: Those of the Auditor, Operationist and Cashier, without these three Signatures and the Stamp this Receipt is Invalid.

Place	Auditor	(Signature)
	for	Operationist (Signature)
	Stamp	The Amount Stated in This Receipt has been Received by
	Cashier	(Signature)

123

100

The rules for making out crossed checks are the same as those for cash checks. The requisites of both forms are the same, except that on the crossed checks the word "Transfer" is printed in place of the word "Pay", since the amount of a crossed check cannot be paid in cash, but only by transfer to another account.

In addition, a crossed check is watermarked "Clearing" over the protective hatching (which is blue in contrast to the rose hatching of the cash check).

Settlements are made with railroads, steamship lines, transport and forwarding concerns and airports by means of checks for settlements with transport Khozorgany. The amounts of such checks are credited only to accounts of transport organizations. These checks are white, and are distinguished by a number of other characteristics from cash checks and crossed checks (see the form of transport settlement checks on pages 148 and 150). [Original]

Crossed checks and transport settlement checks are also valid for a period of ten days, not counting the day of issue.

Local and out-of-town payment instructions and letter-orders of clients are written dispositions of State Bank clients for the execution of one operation or another on their account.

On the basis of local payment instructions, the State Bank makes transfers from one account to another at the same branch: from the account of the client issuing the instructions to that of the payee thereunder.

On the basis of out-of-town instructions, sums from cus-

customer's accounts at one office are transferred to other, out-of-town State Bank Offices.

The form of both local and out-of-town payment instructions are given on pages 67 and 71 respectively.

The term list [record] is applied in the State Bank to document-lists presented by the clients, for instance, lists of crossed checks, bills, etc., and also to such lists drawn up by the bank itself.

Lists as a rule are submitted in two copies, of which one is retained by the Bank, while the other is returned to the customer with the Bank's receipt when it accepts the original and the annexed documents. Lists are widely used, since they very greatly lighten the work load of the Bank, for only a single entry for the total amount of a list is made to the account of the customer presenting it.

The principal internal posting mediums include postings, names and advices of interbranch transfers.

Inasmuch as the preparation of posting memos causes unnecessary expenditures of work, time and paper, the State Bank usually tries to avoid the use of special forms, and converts the documents presented by customers into posting memos. For this purpose a rubber stamp is used to indicate that the documents are posting memos, or a special phrase "Posting Memo" is printed on the form in advance.

Special posting memos are made out in practice only in cases where there is no document that can be turned into a posting memo, for instance, in making correction entries, in accrual of interest, etc. In such memos the substance of the operation is set forth clearly and exhaustively.

Advices of interbranch transfers are written instructions from one State Bank office to another to execute operations for the account of the issuing office. There are a number of different forms used for these advices. They differ both in substance and arrangement. For details see Chapter VII "Interbranch (mutual) settlements".

In addition to separate memos: what are called summary memos are also often met in State Bank practice. These, like the lists described above, are used to reduce the number of account entries, by only entering the totals.

Such memos include, for instance, the summary cashier receipts posting memos for collateral taken in, which are prepared at the end of the day from the individual receipts, documents.

The detailed items for a summary posting memo are the separate documents from which it was prepared and to which the text of the memo refers. Operations recorded in non-balance-sheet accounts which relate to the receipt or delivery of valuables or documents of any description by State Bank offices, are formalized by what are called non-balance-sheet posting memos.

Form No 9

Local Transfer Application

(Pink paper)

1
CopyLocal 23 June 1945
Narkommestprom Dye FactorySaratov K/O of State Bank
Operations Clerk No 4
Kind of Operation No 1For transfer from one account to another in the same
State Bank Establishment

LOCAL TRANSFER APPLICATION No 127

For credit to the account of the payee in your branch which
is indicated below, we request you to charge our clearing/
current account under

DEBIT

No 9811.3
(Account of payor)

CREDIT

No 148121
(Account of payee)

Wholesale base of Narkomrezinprom

(Name of payee)

Five thousand nine hundred eighty-one rubles

(in words)

In payment of account-invoice No 9211 of 22 June 1945

5,981.00

(in figures)

Passed by Group A-
to debit of account of payor

23 June 1945

The Controller ----- (signature)

The operations clerk ----- (signature)

To
Amount whom
For
whatPlace for seal
or stamp of
(customer)

(Customer)

To be filled out in triplicate: original for debit entry to
payor's account, 2nd copy for credit to payee's account,
and 3rd copy to be returned to payor

127

These are divided into addition and reduction [in and out].

Besides this type of memo, receive-and-deliver memos are also met in practice. They are used in cases where a particular valuable is simultaneously withdrawn from one non-balance-sheet account and added to another such account, or when a substitution of documents occurs, which is reflected by a charge to one detail account and a credit to another in the same balance-sheet account.

An account distribution order is placed on every document authorizing an account entry in the State Bank. The term account distribution means an indication on the document of the synthetic and analytic accounts to be posted, together with the amount and date, certified by the signatures of the proper bank officers. After this, the document becomes a posting memo, from which both the synthetic and analytic account is posted.

No alterations are ever authorized in the amounts on documents on which money, valuables or securities are received or paid out by the State Bank. Documents with altered amounts are considered invalid even when such alterations are specifically noted.

It must be noted that the so-called method of multiplication is extensively used by the State Bank in filling out documents. It consists of the preparation of the document by the client or a bank employee who commences the formalization of an operation, in as many copies, using carbon paper, as are

required by all participants. For instance, in settlements between suppliers and purchasers, a supplier, delivering its invoice-accounts for collection to the State Bank establishment that serves it makes out four copies of the bill. It keeps one of them, one is required by the State Bank establishment that serves the supplier, one by the State Bank establishment serving the payer, and one is to advise the supplier of the effected payment. Payment orders (for instance for out-of-town transfers) are filled out in the same manner by the customers, and State Bank offices handle advices for interbranch postal transfers similarly (a manifold of cards with four copies).

3. SIGNATURES OF STATE BANK WORKERS ON DOCUMENTS

The certification of cash-settlement documents by the signatures of State Bank workers is of very great importance. Such documents must bear two signatures of operative and accounting workers of the State Bank, of which one is by the person with the right of first signature and the second by a person with the right of second signature.

The right of first signature, which is that of making dispositions (of deciding), is given only to a strictly determined circle of responsible workers of the State Bank. In the branches this circle includes the manager, his assistant, and the head bookkeeper. In the Regional Offices, in addition to these officials, the right of first signature on certain documents is also possessed by the department chiefs and the sector directors.

The right of first signature is also conferred on specially

trusted State Bank workers without regard to their official positions. In such cases this right is confirmed by the superior offices of the State Bank -- by the Head Office; for the Regional Offices, and by the managers of the Regional Offices for the branches.

The State Bank officials who have the right of first signature ex officio may sign documents with no limitation as to amount, while persons on whom this right is conferred by reason of confidence may sign documents only for sums not exceeding the maximum established for them, and only for a limited number of operations.

The right of second signature is conferred on designated workers by order of the manager of the office.

In addition to these first and second signatures, the cash and non-balance-sheet documents which certify the receipt or delivery of cash and of various kinds of valuables and securities must also bear the signature of the State Bank cashier, confirming the receipt or delivery of such items.

Letters, issuing directions, containing basic decisions or submitting reports must be signed by a person possessing the right of first signature. Many documents that circulate in the State Bank require the chief bookkeeper's signature under all circumstances. Such documents include those connected with the certification of operations on accounts which record unexplained items, and also those that certify foreign operations, operations with the precious metals, administrative and management expense, and a number of others.

Signatures on all financial settlement documents are made in ink.

4. FILING AND SAFEGUARDING DOCUMENTS

All documents authorizing account entries are filed under a strictly established procedure, which allows rapid correction and assures their complete safety. The cash documents are drafted separately from the posting memos.

The cash documents are filed under the following procedure:

At the close of the operating day, the cashier to whom this task is entrusted collects the documents in ascending order of balance-sheet account and non-balance-sheet account numbers, and, within these, in the order of detail account numbers, separately for cash receipts, cash disbursements, receipts on non-balance-sheet accounts and deliveries on non-balance-sheet accounts.

On the last page of the envelope of the package of documents the following words are stamped: "This package contains so and so many sheets which have been numbered, taped together and fastened by wax lead seals." This stamp is authenticated by the signature of the cashier who has drawn the document. On the front side of the envelope there is a stamp showing the following facts: Name of the bank establishment in which the package has been made up, date of making up, number of cash receipt documents and their amounts, number of cash disbursement documents and their amounts, number of non-balance-sheet account receipt documents and their amounts, number of non-balance-sheet account delivery documents and their amount,

and the signature of the senior ^{cashier} ~~clerk~~ and the chief bookkeeper.

Above the stamp the safekeeping periods and the index number of the file are also shown.

Footings the amounts of the documents contained in the package is an entirely indispensable step. The agreement of this total with the totals shown by the journal evidences the fact that all documents, without exception, which have been entered during the operating day, are shown in the journal and are actually in existence.

The documents included in the package, with all annexes, are numbered serially page by page.

All of the cash documents, filed under the procedure we have just indicated, are kept in the vault or in safes for 12 months, under the custody of the senior cashier. After the expiration of this period, they are transferred from the vault to the general files of the same State Bank establishment, where they are stored.

The posting documents are usually packaged by the journal clerk. At the end of the day the journal clerk foots the documents on the debit side of the accounts. It is advisable to make this footing on the "DSM" calculating and bookkeeping machine. The documents are then arranged within each balance-sheet account in ascending order of detail account numbers, and, for balance-sheet accounts having items [subheads], for instance, account No 251 "Operating income", or No 253 "Administrative and

management expense", in ascending order of the item numbers in the nomenclature of these accounts.

The posting documents, after being arranged in this way, are numbered sheet by sheet and bound together. The envelope of the package is stamped with the name of the bank office, the safe-keeping period, the file index number, the number of documents and the total amount involved. This total is then checked against the totals of the debits to the accounts shown by the journal, after subtracting the turnovers to the debit and credit of cash on the operating day in question.

The number of documents and their amount is certified by the employee that foots them, and their agreement with the journal is certified by the journal clerk.

The number of sheets, numbered, taped together and sealed, is certified on the last sheet of the envelope-folder. In large State Bank establishments, where there is a separate journal in each operative department (group) the documents are made up in separate packages for each group, and are then tied together in a single for for each day.

The documents for the balance-sheet accounts of groups I, XVI, XIX, XX, XXI, XXII, XXIII, XXIV, and XXV (special funds, administrative and management expense, capital investments by the State Bank, income and expense of the State Bank etc.) are kept in separate packages. This is done to ^{facilitate} ~~conduct~~ documentary audit and the drafting of all kinds of certificates on the transactions related to the accounts of these groups of the

balance sheet. Copies of the posting memos are also placed in the same packages containing the general documents covering the operations on such balance-sheet accounts. The documents supporting foreign operations and those in precious metals, are also made up in separate packages. This is because a longer period of safekeeping is prescribed for these documents than for those covering other operations. The settlement documents for the out-of-town goods turnover, the cards for interbranch transfers, and a few other types are made up and safeguarded under a special procedure. Details on this subject will be found in the chapters dealing with such transactions.

Some documents of special importance must always be kept in safes (or strongboxes) in the vault. Such documents include: the monthly proof-sheet for the past month and the annual report for the past year with all annexes; the balance control-sheets or cards for all detail accounts for the current month; the cash documents for the current year and the posting memos for the current month. The following documents must also be kept in a safe place and, under all circumstances, in iron safes, coffer or strong boxes; Posting documents for the current year (except the posting documents for the current month, which must be kept in the vault); the card-file of active detail accounts, as well as the detail account sheets for balance-sheet accounts No 210 "Other debtors and creditors", No 212 "Accountable persons", No 213 "sub-branches"; the operating and registration journals, books, staffels, and interest-sheets; customer signature cards; unpaid bills, list-notes and other documents accepted for collection from suppliers;

Form No 10

Out-of-Town Transfer Application
(Yellow paper)

1
Copy

Soyuzorguchet standard form 480

Kherson Cannery Plant:

Operations Clerk Type of
No 4 Operation
 No 1

(from whom -- name of payer)

To The Kherson Regional Office of the State Bank

Date 21 September 1945

Out-of-town transfer application No 125

Charge our clearing/current account with you and transfer by mail No

DEBIT
55124

(account of payor

No MFO

CREDIT

14815

B/ac, No 263

B/ac No 251

To the Kerch Branch of the State Bank, city of Kerch
(Name of bank and its address - city, republic, Kray
(oblast)

to be filled in by
Customer by bank
Amount of Telegraph
transfer tolls
20,500 R. ---

To the Kerch "Avangard" plant of Narkomtavetmet
(Name of Payee) Clearing/Current Account No 174122

R

Twenty thousand five hundred rubles
(in words)

Executed by bank
Date 21 September 1945

Controller Operations Journal
 clerk Clerk
(signature) (signature) (signature)

In payment of bill No 229 of 15 September 1944

Advise MFO No 79211
Controller

(Signature)

Space for
seal or
stamp
(of customer)

(Signature of customer)

For To To
What Amount whom Where

To be filled out in triplicate: original for debit entry to payor's
account, 2nd copy is sent to payee's bank with MFO advice, 3rd copy
is returned to payor as bank's receipt for acceptance of remittable
application

135

unpaid bills, executions and other collection items forwarded for payment; unreconciled advices on initiated interbranch transfers, copies of confirmations on initiated advices, unreconciled advices on interbranch transfers contra, and the final checkerboard sheets on the account "MFO contra"; and bank seals and stamps.

The tables of the transfer code are kept separately in a fireproof safe in the custody of the person assigned to use it.

Two kinds of files are distinguished in the State Bank; What are called current files, and the general files.

The current files are divided into the files of cash documents; the files of operative bookkeeping (posting) documents and accounting records; and a file of other documents and copies.

The cash documents of the current file, such as cash orders, paid checks and other cash settlement documents, are bound together and numbered for each day and are kept in the vault under the direct change of the senior cashier.

The documents of the second and third groups are kept in the operating departments under the custody of the chief or senior bookkeeper. In large State Bank establishments there is a special file clerk who is responsible.

The cash and posting documents are transferred, a year after they have been filed, from the current files to the general files of the State Bank office. The documents are kept in this general file for the number of years prescribed in the file instructions issued by the head office of the State Bank and ap-

proved by the Central File Administration USSR. All individual files are given an index number pursuant to the filing instructions and are entered in a special file register.

Certificates on documents held in the vault are issued only on demand of an operating department and only with the knowledge of the manager of the cashier office or of the senior cashier. The removal of packages of documents with cash orders or non-balance-sheet orders from the vault is never authorized. All such certificates are issued by the cashier responsible for the safekeeping of the documents. The documents are examined by the employees making up the certificates in the presence of the cashier. Posting documents are delivered for certification only on authorization of the chief bookkeeper of the State Bank office, and are examined in the presence of the file clerk.

If any specific document must be removed on demand of judicial or investigating authorities, this is done only on the authorization of the manager of the State Bank office involved. At this time, a statement is drawn up in two copies, one of which, together with the demand for the surrender of the document, is retained by the cashier, if a cash document is involved, or by the chief bookkeeper, if it is a posting document. A copy of the requisitioned document is put in the place of the original. The second copy is handed to the person making the requisition. A notation of the removal is made on the cover of the package of documents.

5. THE GENERAL IDEA OF BANK DOCUMENT CIRCULATION

Document circulation means the procedure and the sequence of routing the documents that formalize banking transactions, from the moment when the original document first comes into existence down to the time it is entered on the accounts of the analytic and synthetic accounting, and is then included in the file-package made up for the operating day involved.

In the wider sense, the term document circulation means the entire turnover of banking documents within a single establishment of the State Bank, and also includes its dispatch to another establishment of the State Bank -- for instance the document circulation in settlements between suppliers and purchasers in different cities, which affects two State Bank establishments in different cities. (See chapter V "Settlement operations.") The process of routing the document for each separate operation is divided into number of successive stages.

Every operation in the State Bank is commenced by the presentation of an original document by the customer or by the preparation of this document by the bank itself. The process of document circulation commences with the verification of the documents as to form and substance, that is, with respect to the regularity of the execution of the operation embodied by the original document. The next stage consists of the conversion of the document to a posting order by indicating the accounts to be charged and credited, or the preparation of a separate posting

order. Next comes the posting to the analytic accounting, while the document itself is formalized by the second signature of a State Bank officer. In the following stage of document circulation the postings to the analytical accounting are checked and the document formalized by the first signature. The document then is journalized.

The concluding stage of document interchange is the proof, between entries of the analytic and synthetic accounting, and the preparation of the document file package for each operating day.

6. THE ORGANIZATION OF THE OPERATIVE WORK

The proper organization of the operative work is based on its uniform distribution between the individual employees, on the delimitation of their respective rights and responsibilities, and on the establishment of a fixed circle of duties for each of them.

In each establishment of the State Bank, the operative work is divided among accounting brigades of workers who are responsible for servicing the operative accounting of a certain group of clients. Such brigades are formed according to the government departments having jurisdiction over the clients. Thus, for instance, there are brigades to serve trading enterprises, Spetsbanki, kolhozoes, enterprises of the machine building Narkomats, of the Narkomats power stations, of ferrous and non-ferrous metallurgy and of the chemical industry, the enterprises of the Narkomats of coal,

petroleum and fuel industry, etc.,

In addition to the brigades that serve the clientele according to government department, brigades are also organized in the State Bank offices to carry out specific operations, for instance, to handle collections, to handle interbranch transfers, etc.

According to the volume of work and its peculiar features, brigades are composed of one controller and two operating clerks, or of one controller, two operating clerks and one machine clerk.

The former type of brigade is met in most State Bank establishments that keep detail accounts by hand. The operations clerks receive the customers and handle the operations, look over the documents presented by the customers, confer with them and post their accounts.

In those State Bank offices where the detail accounts are kept on analytical accounting machines, a brigade consists of one controller and two operations clerks, who keep staffels instead of detail accounts. In State Bank offices where the detail accounts are printed on bookkeeping machines under the centralized method of processing, that is, after the operations have been completed, the operation clerks also keep staffels, without text, or position sheets, and these clerks are freed from the duty of posting the customers' accounts. They follow the movements and balances on the customers' account during the course of the operating day by means of these staffels or position sheets.

In State Bank offices where the customers accounts are kept on typewriters or bookkeeping machines under the decentralized method of processing documents, a brigade consists of one controller, two operations clerks and one machine clerk or operator. In such brigades the the customers accounts are kept by the machine clerk or operator, and the operation clerks concern themselves exclusively with handling the operative formalities.

In all cases the brigade is headed by the controller, who is responsible for all its work.

The duties of the workers in brigades that carry out the separate operations -- for instance, relating to collections, interbranch transfers, administrative and management expenditures, budget operations, etc. -- are somewhat different in the specific features that are connected with the character of the operation, but here also the general rule is invariably observed that the controller checks the formalizations and entries for each transaction.

In the large offices of the State Bank where a single brigade cannot serve the entire clientele of a single Narkomat, several operational and accounting brigades are detailed to serve it. In this case all such brigades taken together form what is called an operative group, for instance, the operative groups to serve the customers belonging to the food industry, the Narkomtorg, the Narkomzagotovok, etc.

All the operative and accounting brigades and groups, taken

as a whole, constitute an operative department.

The departments are headed by managers whose duties include, in the main, the general direction of the work of all brigades and groups, and general supervision over the proper formulation of the operations. The department managers negotiate with the customers on matters of importance, receive complaints and check their disposition, and systematically verify the work of the department. Each operative group completely services its clientele in all transactions, both settlement and loan, and handles the synthetic and analytic accounting for the balance-sheets accounts in which the operations of its clients are reflected.

In State Bank offices with mechanized accounting, the synthetic accounting is done on machines. Accordingly, as has been seen in chapter III, the journal is kept in a decentralized manner in the large offices of the State Bank. Each departmental group thus has its own journal.

In small offices of the State Bank the journal is kept under centralized procedure.

The chief bookkeeper is responsible for the general setup and condition of the accounting and bookkeeping records in the office of the State Bank, for the correct and timely formulation of the transactions and for their strict and efficient control. The rights, duties, and responsibilities of the chief bookkeeper are fixed by the decree of the SNK USSR, dated 29 September, 1932. "On the rights and duties of the chief book-

keepers and senior bookkeepers in institutions and economic organizations of the socialized sector", with the amendments made by the decree of the SNK USSR of 21 June 1924.

The collection groups or brigade likewise forms a part of the operative department, and constitutes an independent structural group. The work of this group is set forth in Chapter V.

In large branches and small Regional Offices of the State Bank, the collection operations are divided among two groups: The group of collections originated, who keep a card file of the suppliers, and the group of collections demanded, which keeps the card file of the payers.

In the large regional offices, the collection operations are sometimes decentralized, that is, a separate collection brigade is assigned to each operative group.

The processing of interbranch transfers is handled in the individual group or brigade.

In the large State Bank offices there is also a special group "mail room" while in the smaller State Bank offices the functions of such a mail room are performed by a single employee whose duties are to receive and dispatch all correspondence.

As a rule all employees begin and end their work at the same time. In large offices of the bank, the employees who receive the mail, and a few others, begin their work somewhat earlier so that they are able to prepare the cash settlement documents by

the time the operating day begins.

As a rule, the bank accepts instructions from customers for five hours from the beginning of each operating day; kolkhoses and Sel'po are served during six hours. Cash is accepted from agencies of the Narkomsvyaz and savings banks for seven hours, while cash is received all day for credit to the current accounts of kolkhoses and Sel'po, as well as for the accounts of private persons.

All mail that reaches the mail center after 1330 hours (when work begins at 0900 hours) is delivered to the operative departments not later than 1400 hours. All mail that reaches the mail center after 1330 hours is stamped "Evening".

All telegrams reaching the bank after 1430 hours is also stamped in the same way. Mail so stamped is examined by the chief bookkeeper or his deputy, and after the urgent documents to be processed have been taken out, remains in his office for delivery at the beginning of work the next day.

The operative brigades post the customers' accounts on the same day that cash settlement documents are received, if they reach the brigade from the mail center before 1400 hours. Telegraphic instructions are executed up to the moment transactions with the clientele are ended for the day.

Settlement documents accepted before 1400 hours must under all circumstances be posted to the customers account the same day.

As a rule, entries to the detail accounts of customers are

in practice completed within half an hour or so after the acceptance of documents ends, while the journal clerk finishes his work of posting to the journal about an hour after detail-account posting has been finished. All of the remaining time is used by the workers of the operative brigades, for footing the detail accounts, for closing them, and for proving the entries of the analytic accounting against those of the synthetic.

7. THE GENERAL IDEA OF INTERNAL CHECK

Internal check is extremely important in State Bank establishments. It must prevent not only every kind of wrongdoing, but also all possible errors whether in formalization or accounting of the operations.

The tasks of internal check include verifying the regularity of all operations completed, the correctness with which they have been embodied in the settlement documents, audit of the accounting record of each separate operation, especially of the accuracy of the balance, and also the verification of the agreement between the actually existing valuables in the State Bank establishment -- cash, precious metals, foreign currency, time notes, etc. -- and the figures of the synthetic and analytic accounting.

By the term "check" we understand the aggregate of measures for verifying the accuracy in substance of the operations completed; in addition, the function of control also includes the task of verifying the accuracy of the accounting formulation of each financial settlement or operation, and of all operative and accounting

work of the State Bank, up to its concluding processes, -- for instance, the payment of cash against a check, the charging or crediting of an amount to a customers account, or the execution of instructions to transfer funds to another State Bank establishment.

The control of operations performed by an operative brigade includes verifying:

- (1) the regularity of an operation carried out;
- (2) the possibility of carrying it out in the given state of the customers account;
- (3) the accurate drafting of the documents (all of the requisites necessary for the execution of the given transaction will be examined, especially the presence of the authorizing notations);
- (4) the authorization of the person presenting the document to receive cash or other valuables or to issue dispositions with respect to the transfer of funds to another account or another city;
- (5) the authenticity of the signatures and stamps on the documents presented, on comparison with the samples on file with the bank;
- (6) the entries to the customers accounts made by the operation clerks and the balances carried forward by them;

(7) the accuracy of the interest figures.

Documents are signed by the controller, which concludes the check and serves a sign that the documents are in order.

If, on check, any defect in the drafting of a document is discovered, the document is not put through and is returned to the person presenting it, or, if it has been forwarded by another branch of the State Bank, is made the subject of an inquiry. It is given effect only on receipt of explanations removing all possible doubts. When a document has been posted to the customers account the control must establish the accuracy of the posting. To this end, the controller first of all verifies the accuracy of the account distribution in the posting memo and establishes whether the document has been posted to the proper customers account, and then verifies the text of the posting itself, its amount, and the accuracy of the balance carried forward. The document is then journalized, and then put together for filing with the other documents of the day. In connection with these operations, the control must still be continued, since it must be established whether the document has really been entered in the journal, whether it has been accurately entered, and, finally, whether it has been included in the package of documents made up for the day, whether it was properly fastened in this package and whether it was included in the grand total of the documents for the day as footed. This is already the following stage of the control, which has for its purpose the proof of the figures of the analytical accounting against those of the synthetic accounting, and of the journal against the proof sheet.

In order to perform such a control, the package of documents that has been made up must be examined, a control footing for the entire package must be made and the total so obtained must be proved against the totals for the day shown by the journal. Only after such a control operation can one be sure that all documents have been entered and are reflected in the accounting. It is of course obvious that in practice this control is made not on each separate document but on all documents taken together. Only where a discrepancy has been found is it necessary to have recourse to a check of the entries, document by document, until the errors have been found, and rectified.

The accuracy of entries is checked in the State Bank in all fields of work, without exception, and by different method, namely; by the method of visual check the method of proving parallel entries.

In all State Bank establishments so-called periodic audit of the various fields of operative and accounting work is also made. The task of such an audit is to ascertain whether the system of document circulation is properly set up, whether the control is thorough, and whether all practices in executing operations, drafting documents, collecting them and safeguarding them are correct.

8. FORMS OF CONTROL

A check on the correct drafting of documents by customers and operation clerks, and also on the postings to the accounts,

which is based on these documents themselves, is called a "visual" check. The reason for the name is that it is made only on the basis of inspecting the documents to be checked and the entries made by other workers, that is, without setting up controlling detail accounts.

Visual check is made under the following procedure:

All documents posted to the detail accounts are delivered to the controller together with the account sheets. The controller verifies the accuracy of the drafting of the documents, and the accuracy of their posting to the detail accounts and evidences this audit by his signature on the detail account sheet and on the document. At the same time he checks the accuracy of the new balance on the detail account sheet. When a number of documents are posted at once, the operations clerk has the right to enter only the final balance without putting down the new balance after each separate item. The controller has the duty of strictly examining the entries to make very sure that the balance of any clearing, current or other liability account is not allowed to become a debit [show an overdraft].

The operations clerk and the controller each separately compare the signatures and stamps of the clients on the disbursement documents with the samples on file with the bank, and attentively examine all documents that authorize an individual to receive money or valuables. In the course of this check, the controller verifies the notation on the disbursement document, made and signed by the operations clerk, showing the

possession of a passport (No, by whom and when issued) by the person receiving the payment.

In checking the documents the controller pays special attention to whether all the entry spaces on the cash deposit slips, receipts, checks, and orders have had lines drawn through them to prevent alteration.

The controllers strictly watch out to be sure that checks and disbursements orders entered by them in the payment books are delivered by the operating brigade to the cashiers office only according to these books and only against receipt by the cashiers.

The following basic rules are observed in carrying out a transfer from one account to another: The worker who makes the credit entry must first make sure that the sum has already been debited to the other account. For this purpose he sees whether there is a posting distribution authorization with the signatures of the employees who made the debit entry to the payer's account. The workers who make the credit entries to the payees accounts have sample signatures of the workers servicing the payers. The authenticity of the signatures under the posting distribution authorization are checked against these samples. When a balance is carried forward from one sheet to another of a detail account, the controller evidences the correctness of the transfer by his signature on the new sheet.

When cash is deposited by customers, their accounts are

credited only after the cash has been actually received by the teller. In this case both operations clerks and controller must be sure that the money has really been received by the teller, that the cashier's signature on the deposit slip corresponds to his sample signature on file, that is, that there is no doubt as to its authenticity. The payment of cash from the account of a customer is made only after the amount to be paid has been charged against the customer's account.

Control by parallel entries is used by the State Bank only for foreign operations and for transactions in precious metals. With this method the controller uses the document that has already been posted by the operations clerk to the detail account as the basis of a second entry to a controlling detail account which is opened for every customer or type of valuable. Subsequently a daily mutual proof of the entries against each other is made after the close of operations.

A special control has been established over certain accounts in the State Bank. For instance there is a centralized control, vested in the chief bookkeeper of a State Bank office, over accounts No. 435 "Settlement documents forwarded for collection", No 414 "Settlement documents for collection, maturing at fixed date", and others. There is an immediate control vested in the chief bookkeeper over accounts No 210 "Other debtors and creditors", No 225 "Unreconciled MFO items, over the the resultant accounts [nominal accounts?] over accounts recording the reserve currency stocks and fractional currency stocks and a few others.

There is also a special control over the administrative and management expense of the State Bank offices. The responsibility for the observations of estimating discipline in these offices rests by law on the chief bookkeeper of the office in question, together with its manager. In large offices of the State Bank an employee is specially detailed to assist the chief bookkeeper in his control of these expenses.

In carrying out such control, the orders and documents must be audited both as to the nature of the administrative and management expenses incurred and as to the correct formulation of the operations by direct comparison of the expense items with the corresponding lines of the estimates. The auditor of administrative and management expense certifies the correctness of the payments for wages and other payments to bank employees and exercises surveillance over the timely return of unexpended wage items and on the proper disposition of the deductions from gross pay of the bank employees.

The same auditor audits the keeping of the operating inventory cards, the formulation of the documents connected with construction of State Bank buildings, with large operating inventory purchases and with capital repairs, and also exercises surveillance over the condition of account No 212 "Accountable Persons". The check made by the chief bookkeeper has the important function of checking, at the close of the operating day, the correct closing of the cash journals by the operating brigades, and the identity of the totals shown by the cash receipts and disbursements

journals with those of the cash turnover entries shown by the cash book.

There is a strict control in the State Bank establishments over the correct and timely cancellation of the unused checkbooks returned by clients. Such checkbooks are accepted only by the chief bookkeeper or his deputy who immediately cancels all the checks and control stubs [Used to identify a payee presenting a check for payment] by cutting off a piece of each.

The formal statements of verification of the card files covering collections, MFO and time notes are signed by the chief bookkeeper, who checks the timeliness and completeness of the entries in such inventory files.

Control over the dispatch and receipt of valuables is of great importance in the State Bank. The orders received by the cashier's office from the operative departments of the bank, covering shipment of valuables, are signed by the same persons who are authorized to sign disbursement documents.

Valuables are placed in bordereaux or envelopes in the presence of the chief bookkeeper and the senior cashier. In large establishments of the State Bank an employee is specially detailed for this function, instead of these officials.

These officials certify^{by} their signatures that the valuables have been properly placed therein and that the designation on the endorsements and packages are correct.

All postal notices of the arrival of cash, letters or other valuable mail addressed to the State Bank are delivered, not to the cashier's office, but to the operations section. The latter enters all such sendings in the incoming mail register before notifying the cashier's office to take over the valuables. This register is subsequently checked for the timeliness of the receipt and accounting for such postal shipments of valuables by the cashier's office.

To control the dispatch of telegrams, the State Bank establishment file samples of the signatures of employees authorized to sign financial settlement documents, together with an impression of its official heraldic seal. The telegraph office checks all financial settlement telegrams received from the State Bank against the samples on file.

All financial settlement telegrams received by State Bank establishments, including transfers, must have a transfer code word, the control stamp and signatures of the responsible officials of the telegraph office. The State Bank establishments check the genuineness [or authenticity] of the telegrams, by sample signatures of these persons and sample impressions of their stamps or seals.

Before any documents are dispatched, the mail room of the State Bank establishments verifies the presence of the proper signatures, and where necessary also the presence of the transfer code word or the impression of the heraldic seal.

There is a special check on the proper deposit or financial

settlement documents in their envelopes. This check is made by a special auditor, who makes the corresponding signed notation on the envelope after checking its contents.

There is a control in all State Bank establishments over the processing of telegraphic inquiries, specially important letters, over the investigation of complaints about irregular actions of the State Bank and also over the timely receipt of inquiries sent out to the clientele or to other State Bank establishments. For this purpose a special person is designated to keep strict watch to prevent letters of complaint from being allowed to accumulate without action.

Registration of all complaints is set up in each State Bank establishment to keep track of them and control their timely disposition.

There is a complaint book in the lobby of every State Bank establishment, in which clients may enter complaints against irregular actions of State Bank employees, or report other shortcomings. This book is examined by the administration of the establishment in question, and the results of the investigations are brought to the knowledge of the persons complaining.

There is a special control on the execution of urgent transfers of funds to the centralized accounts in other State Bank establishments, as well as over the dispatch of urgent accounting reports. This control is entrusted to the chief bookkeeper and is organized as follows: A control ticket is made

out for each urgent transfer or urgent accounting. The control tickets are placed in a card file, where they are arranged by dates. The employee exercising the control examines the card file every day to see what transfers must be carried out or what statements must be made up and sent out on that day. At the end of the operating day, the execution is checked with the employee handling the matter. The control tickets on which the check is made are placed in the card index for the new period.

It is exceedingly important to have the customers check the Bank's operations. All customers are interested in having the bank do its work on their accounts promptly and accurately. The basis of such a check is the careful verification by them of the abstracts of their accounts and the documents annexed. These statements are delivered to the representative of the customer only when such representatives are authorized to receive them, against their receipt on the account sheet or on ~~a~~ special card. When statements are sent by mail, they are registered, and sent at times agreed with the customers. If the customer does not call to pick up this statement, it is sent by registered mail after twelve days have elapsed. In order to avoid abuses, the delivery of duplicate documents, or copies of the statement prepared from the detail accounts must be authorized each time in writing by the manager of the State Bank establishment.

On the statements on the first day of each month, the balance of the account is shown in figures, and the blank space

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on both sides of the amount ruled through. In the statements on January 1, the balance is also shown in words. All doubts of the customers as to the correctness of the entries, or the timely passage of any amount to the account, are urgently cleared up in the bank.

According to the existing rules, the holder of an account is obligated within ten days, or within twenty days if located in a rural community, to verify the correctness of all entries to its account, and to advise the bank of any objections to it. In the absence of objections, the statement of account and the balances are considered confirmed.

A general and mutual verification of accounts with the customers takes place once a year on January 1. As of this date, all customers are obligated to confirm to the bank, in writing, the balance of their accounts. In addition to the operative control, the chief bookkeepers of the State Bank establishments, or their assistants, or, in large establishments, the auditors, periodically check the separate fields of work with respect to the correct organization and condition of the accounting work, of the document circulation and the internal checks, and also with respect to the correct execution of operations and drafting of the documents. At the conclusion of such an audit, a certificate is drawn up and signed by the person making the audit, who enumerates all faults and omissions noted. The certificates are stapled together by months and are kept by the chief bookkeeper, who is obligated to take the necessary measures immediately to eliminate the faults found in the work. He makes the corresponding

signed notations on the certificates with respect to the correction of these faults.

[See copies of Local Transfer application and Out-of-Town
Transfer Application on ^{pages 132 and 135} ~~pages 132 and 135~~]

U-2110

CHAPTER VSETTLEMENT OPERATIONS

1. THE SETTLEMENT SYSTEM NOW IN EFFECT.

In our socialist state, all organizations represent single links in one national economy. For this reason, mutual settlement relations are of greater importance with us than anywhere else in the world.

Mutual settlement relations arise in connection with claims by enterprises and organizations against each other for payment for goods and services. These mutual relations are regulated by law and are precisely fixed by commercial contracts which specify the forms, times and manner in which settlement is to be made. Settlements are made, in the last analysis, by payment from the purchaser (customer or payer) to the organization or enterprise marketing the goods or rendering the service (the supplier). These settlements are customarily called turnover or commodity settlements.

Other settlements not connected with the furnishing of goods or services also arise in the socialist enterprises and organizations. They include settlements with the state budget, payments for capital construction and repair, deductions for social insurance, deductions for higher-level links in the chain of control, etc. The manner, time and form of such settlements is established by law and the instructions of the commissariats concerned.

The correctness and rapidity of settlements is a guarantee of the best possible use of the material and financial resources of our socialist economy. For this reason settlements must take an organized course, according to a definite system assuring their uniformity and the compulsory control on the part of the bank. All settlements, except those for small amounts, must under all circumstances be made through a bank, both in cases of settlements between economic organs belonging to two different systems and in cases where the settlements effect a trust (Glavka) and its component enterprises. All economic, state, cooperative and public organizations must keep their free operating funds in clearing account or a current account [Details on the character of these accounts and the procedure for opening and maintaining them will be found below] with the State Bank.

The State Bank is the only settlement center, "the general state apparatus for the registration of production and the distribution of products" (law of March 20, 1921). It organizes, carries out and checks settlements. This makes it possible for it to: (1) make an extensive use of clearing, which is economically and technically a more advanced method of payment than cash settlements; (2) control the economy by means of the ruble, disallowing illegal, irregular settlements, uncovering defaulting payers, and supervising the regular order of payment; (3) improve settlements, adapt them to the peculiarities of the several branches of the economy, and to protect the interests of the absent party (supplier or purchaser) to intercity settlements; (4) grant what are called settlement credits to economic

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organizations. These functions of the State Bank in the field of settlements are connected with the credit reform of 1920, which replaced commercial credit by direct bank credit and made it possible to convert the State Bank into the only settlement center.

As is commonly known, when the credit reform of 1930-1931 was carried out, wrecking activities had been going on, which led to complete disruption of contractual discipline and khoz-raschet in the mutual relations of economic organizations.

The bills of the supplier were paid regardless of whether he had complied with the contractual provisions with respect to prices, quality and time of delivery, and therefore he did not bother at all about fulfilling the contract. The purchaser was deprived of all possibility of acting upon the supplier, since the bank paid the accounts without the consent of the purchaser, who was thus not the fully empowered master of his own resources, with full powers of disposition over them. This very gross distortion of the credit reform had extremely unfavorable consequences, and a number of government decrees were issued to liquidate them (dated Jan 14, 1921, March 20, 1921 and July 22, 1931). These decrees were known under the name of corrections to the practice of the credit reform. The current system of settlements is mainly based on these statutes and subsequent supplemental legislation.

The principles of the current system of settlements by economic organizations material commodity values, furnished to one another or for services rendered, are as follows.

1. The sale of goods or rendering of services by one

economic organization to another on credit is forbidden, as well as the acceptance of advances on account of such sale or service (law of Jan 20 1920) (As exceptions, advances may be made on construction accounts with industrial cooperative societies by budget institutions).

2. The goods delivered or the services rendered are to be paid for by those receiving them (the purchasers). The method of such payment is arranged contractually between the parties. Payment is not made on receipt of the goods, but against invoice-accounts and bills from the suppliers.

3. In most cases payment is made at the place where the purchaser maintains a clearing account, and his concept (acceptance) is indispensable for such payment. Payment may also be made out of the letter of credit or special account of the purchaser at the place where the supplier maintains a clearing account, i.e. likewise with the payer's assent. The acceptance form is preferable, for under it the purchaser himself immediately checks the fulfillment of the contract by the supplier, thus strengthening khozraschet and intensifying the pressure on the supplier in the direction of precise fulfillment of his contract.

4. The preferred, acceptance form of settlement is used both in local (intra-city) settlements (where both supplier and purchaser are located in the same city) and in out-of-town settlements, (where supplier and purchaser are located in different cities). The letter of credit and the special account are employed only in out-of-town settlements.

5. Settlements must invariably be made through the bank. The overwhelming majority of all settlements are made by clearing, whereby amounts are transferred from the clearing, letter of credit, special, special loan or other accounts of the payer to the clearing accounts of the suppliers.

6. The bank makes payments only to the extent of the funds of the payer in its possession, and only with the consent of the payer.

7. On the basis of the existing laws the bank sets up an obligatory procedure of documentation and technique of settlements, follows up the observation of settlement discipline, and, in the case of payers not disposing of sufficient funds, observe the payment priorities prescribed by law.

8. In addition to the general forms and procedures for settlement (acceptance, letter of credit and special account) the bank also establishes specialized form of settlement adapted to the peculiarities of the individual branches of the national economy.

9. Violation of the rules of document circulation is punished by a fine.

So as not to burden the bank with a vast volume of small operations, and to avoid interference with the concentration of its attention on the settlements which are more important from the national economic point of view, it has been prescribed that out-of-town settlements of 1000 rubles and upwards are to be routed

through the bank (see pp 99-100 for the exceptions) while city settlements are handled by it beginning with 100 rubles (this amount may be increased to 500 rubles by the State Bank).

Small settlements for out-of-town transactions (less than the minimum) C. O. D. basis or made through the organs of the Commissariat of Communications; while small local settlements are made in cash.

2. CLEARING ACCOUNTS AND CURRENT ACCOUNTS

Almost all forms of settlement operations are connected in one way or another with the clearing (or current) account of the client.

The term "clearing account" in the sense in which we use it, was employed for the first time in the decree of the STO dated 22 July 1931: "On the working capital funds of economic organs". In the seventh section of this decree we read: "All funds of the economic organs, both their own and borrowed, are deposited in the clearing account of the organ with the State Bank from which said organ shall make all expenditures and pay all of the obligations."

Clearing accounts are opened for organizations and enterprises engaged in economic activity, placed on a regime of khozraschet, possessing their own working capital and final balance sheet, and making settlements according to the contracts made by them. Current accounts, on the other hand, are opened for organizations not

engaged in economic activity, namely, for institutions existing under a state budget (union, republic or local), as well as for professional, party and public organizations. If the budgetary institutions have enterprises under khozraschet (publishing houses, rest homes, etc), such enterprises have clearing accounts, not current accounts. On the other hand, such economic organizations as kolkhozes and small Sel'po without bank credit rating have current accounts instead of clearing accounts.

Payment of goods delivered as services rendered to the customers with clearing accounts are made automatically by the bank if there are sufficient funds in the account, unless advice not to pay is received from the customer. Such payments, however, are made from current accounts, in the names of k^olkhozes, village soviets, professional and party organizations, only on receipt of direct instructions from the payer-customer.

Interest on clearing accounts is computed quarterly; and annually on current accounts.

All settlements for the basic, "exploitational" activity of an economic organ are reflected in the clearing account; for instance, for the operation of a factory, for trading activity, etc. This account is maintained with the State Bank. As a rule one clearing account with the State Bank is opened for each economic organ. Only the "exploitational" clearing accounts of housing, communal and cultural enterprises are kept in the Tsekombank system, while those of organizations doing building contracting are kept in those special banks that finance that particular line of construction.

The special accounts for capital repairs, which represent, as it were, special-purpose clearing accounts, are a variant form of the latter. The character and purpose will be discussed below, in section 40. These special accounts are opened in the same bank where the economic organ keeps its "exploitational" clearing account.

An economic organ may also have an account for settlements of capital investment, for construction (financing account or account current). This account is usually kept in the special bank concerned.

These three forms of account make it possible for the bank to check the employment of the economic resources according to purpose. The bank must not allow the payment of capital expenditures from the clearing account for the client's basic activity (except for what are called within-limit expenditures), nor the payment of operating expenses from the capital construction account. To assure the possibility of checking the utilization of funds according to their assigned purpose, special certificates are submitted to the bank in a number of cases, besides the documents necessary for the operation. Such certificates may cover, for instance, the payments of sums for wages, for amortization, etc. In addition to this, supplementary data, in many cases are entered on the documents (bills, orders, checks) serving as basis for the operation (notations such as "for capital construction", for instance), from which the regularity of the proposed application of funds may be established. In this manner the bank maintains an operative control over the use of funds for their intended

purpose. In a number of cases the bank may make a post-audit on the premises of the client as to whether, for instance, funds assigned for capital repairs or wages have actually been used for the purpose specified.

Besides the usual clearing and current accounts, there are also clearing (and current) sub-accounts, transit and centralized accounts used exclusively for the accumulation of funds. Their characteristic feature is the fact that they are opened independently by the bank, (without application by the clients), and the bank makes no payments out of them. Details on these accounts are given below (in the corresponding sections). Here we only remark that during wartime the work of the bank in accumulating special-purpose funds was very considerably expanded -- for instance, of funds contributed by Soviet patriots to the funds for the reconstruction of the economy in regions freed from the German occupation. The corresponding current account was opened in the branches and other offices of the State Bank, and these funds were credited to it. At the end of the month the balances of the account were transferred (through the MFO) to the Operating Headquarters of the State Bank Administration, which in turn transferred them to the receipts side of the Union budget.

To open a clearing or current account, the client must present to the bank (All economic organs must be entered in the state register of enterprises in active existence. This register is kept by the NKF and its local organizations, and an abstract from this register is the required certificate.)

an application for the opening of the account; (2) a certified copy of the charter or regulations governing the activity of the client; (3) the orders of the higher-level links in the organizational pattern, protocols of the general assembly of members of the kolkhoz or cooperative, powers of attorney or other documents precisely defining the duties of the persons authorized to dispose of the client's funds, as well as the order appointing the chief or senior bookkeeper; (4) a list of persons authorized to sign for the client in disposing of the account, with sample signatures and a sample impression of the client's seal; and (5) a certificate of registration from the financial organ.

Certification from the finance organ as to registration is not required for the opening of a current account for a kolkhoz, public, trade-union or budgetary organization, nor for enterprises which are not independent legal entities (such as a shop in a plant, etc.) All documents respecting financial settlements must necessarily bear not only the authorized signatures for the account -- directors, managers, chairman of the administration etc., -- but also the signature of the chief or senior bookkeeper of the enterprise or organization, or of a person duly authorized by him to sign in his stead. This is required by the Law of Sept 29, 1932, which assures control over financial settlement documents by the bookkeeping department.

Transfer documents must be properly drawn and attention (by a higher-level organization, or by a notary).

The client must notify the bank immediately of revocations

of powers of attorney, and, in general, of all changes in the persons authorized to dispose of the clearing or current account.

The bank periodically sends the client an abstract of its account. For this purpose the individual account is made up with a copy (i.e. in duplicate), which serves as an abstract, or statement. Such statements are sent as agreed with the client -- daily, every 3, 5, 10 days, and in no case less often than monthly. To the copies are affixed the documents explaining the entries which were made in the account without the instructions of the client -- for instance, posting memos (and invoice-accounts), for payment of bills, and lists of transfers to the accounts of the suppliers in the local goods turnover. Copies of the documents originating in the account-holder itself are not sent to it, since it already has these, and all that is necessary is to refer to their numbers and dates.

The text of entries to the individual account is written in abbreviated form, or is replaced by key-figures, the meanings of which have been previously communicated to the client.

The client must notify the bank immediately of any missing statements or documents as soon as the fact is discovered, but no later in any event than the time of receipt of the following statement.

The client is obligated to advise the bank of any disagreement with the entries made by the bank in its account within ten days after receipt of the statement. The balance statement

made up by the bank on the list of January must be either confirmed or protested by the client within 10 days (20 days for rural clientele). Protests must show all discrepancies between the clients entries and the bank's entries.

The bank is obligated to verify the signature of the client on documents for payment (checks, orders, vouchers for payment etc.) by comparison with the original signatures on file.

Losses, occasioned by charges to a clearing or current account made by the bank in reliance on forged documents are borne by the client unless the bank is proved to have been at fault.

The bank has the right to refuse payment on a check if the check, or its signatures, appear doubtful, or if its amount exceeds the credit balance of the account.

The client is obligated to indicate the purposes for which it draws sums in cash or transfers from one account to another. In case the account is closed, or operations in it discontinued, all unused checks and checkbooks must be returned to the bank. Accounts that remain inactive for three months are closed by the bank.

3. PECULIARITIES OF THE CURRENT ACCOUNTS OF KOLKHOZES

The immense economic and political importance of the concentration of the continually increasing kolkhoz funds in the bank forces us to pay special attention to this question.

The current accounts of kolkhozes are distinguished by a number of peculiarities. Specifically, the bank makes no charges against the accounts of a kolkhoz without its direct disposition, orders, checks, etc., signed by the chairmen of the management and by the bookkeeper, and confirmed by the seal of the kolkhoz. The minimum amount of transfers and letters of credit from current accounts of kolkhozes is 250 rubles instead of the usual minimum of 1000 rubles. Transfers in favor of kolkhozes are paid out in cash, if they request it, regardless of the amount. Statements of their current accounts are sent to kolkhozes at least twice a month. Involuntary charges to the current accounts of a kolkhoz are allowed only under court execution, and may not in any case exceed 70 percent of the balance in the account, and of subsequent additions to it. A higher interest rate is allowed on the current accounts of kolkhozes -- 3.5 percent annually. The current accounts of kolkhozes are kept in detailed text, without abbreviations or symbols.

Kolkhozes remote from State Bank establishments may have a current sub-account, by agreement with the bank, at the nearest post and telegraph office. The kolkhozes make their deposits to these accounts, withdraw cash from them, and carry out various transfers. The current subaccounts of kolkhozes with establish-

ments of the Nksvyaz are kept under the instructions and directions of the State Bank, in agreement with the Nksvyaz, which details an accountant specially for this purpose. The documents and entries on these accounts are subject to a rigid control. The operations are posted both to the detail current subaccounts of the kolkhozes, and to a special daily report sheet, which is sent together with the original documents to the State Bank establishment concerned.

The State Bank establishment, on the basis of the documents and the report sheets, shows the operations carried out on its balance sheet. The operations involving cash are reflected in the current accounts of the kolkhozes in correspondence with account No 147 "Nksvyaz for transfer operations" (by separate sub-account) while the clearing transactions are entered through the current accounts of the kolkhozes in correspondence with the balance-sheet accounts involved.

4. RECEIPT AND PAYMENT OF CASH ON CLEARING AND CURRENT ACCOUNTS

Cash is accepted on the basis of deposit slips, of which the form is shown on page 64.

Before these deposit slips are turned over to the cashier's office, they are checked by the operations clerk and the controller and registered by the latter in the cash receipts journal. The postings to the customers account are made only from deposit slips on which cash has already been paid in to the teller. At the end

of the day, after the cash has been checked by operations brigade or group, the total summary entry (not by separate deposits) is made from the cash receipts journal to the general journal: Debit "Cash" account: credit the clearing or current accounts of group VII of the balance sheet.

The clients withdraw cash from the bank for small purchases and minor expenses, as well as to pay wages to their workers.

The bank draws up its cash plan according to the verified and critically examined materials from the firms, and then follows up the course of its execution, relying for its guidance on the purposes shown by the clients for the use of cash on the corresponding documents.

The clients draw cash from the bank from their clearing or current accounts by checks, of the form shown on page 63.

A check is written on a blank issued to the client by the bank. It must have a certain requisite and be properly drawn. If these conditions are observed, and there are enough funds, the bank will pay the check.

Checks to a named payee are used by the Spetabanki in settlement for capital construction, and by the State Bank for cash executions of the State budget, for the accounts of the consumer cooperatives, and also at the request of the holders of clearing and current accounts (mostly when funds are withdrawn from the bank by the cashiers of enterprises to replenish their

supplies of cash.)

On paying a check to a named payee, the bank is obligated to verify the identity (The passport serves as a document to evidence identity. The bank notes the passport number, by whom issued and when issued, on the back of the check,) of the person who presents it and to take from him, on the back of the check, a receipt for the money. A bearer check is paid by the bank to any one who presents it, without his endorsement (unless of course it has been notified that the check in question has been stolen or lost.)

The client submits a special application to the bank to receive a checkbook. (This application has a detachable stub, used to obtain the checkbook from the cashier's office, and to settle with the cashier, who receives in cash the value of the checkbook.) This application contains the client's undertaking to keep the checkbook under lock and key to prevent checks from being stolen. On each blank check issued to the client the bank puts the name of the account holder and the number of the account by stamp or by hand. The person who receives the checkbook exhibits his passport to establish his identity. The numbers of the checks issued are noted on the back of the signature card; when checks are subsequently presented for payment their numbers are examined to see whether they have been made out on the same blanks issued to the client. The use of checks issued by the bank to another client is not permitted. The verification of check numbers is one of the most important elements of control, and should therefore be made simultaneously with the

verification of the signatures on checks. Before issuing a checkbook, the cashier verifies the number of checks in it.

The amount received by the cashier during the course of the day in payment for checkbooks, is debited, after verification, to the "cash" account, and is credited to account No 255 "Miscellaneous receipts" while the blank checks issued to the client are charged to deliveries from the non-balance-sheet account No 481 "blanks of strict accountability".

Checks for payment are presented to the operations clerk who handles the clearing or current account of the client. The operations clerk verifies the requisites, the identity of the signatures and seal with the samples on file, the agreement of the check numbers with those in the checkbook issued to the client, and the presence of funds for payment in the account. If there is nothing to prevent payment, the operations clerk tears off the control stub and gives it to the client, (requires the payee to endorse the check if it is to a named payee), charges the amount to the customer's account, and delivers the customer's account sheet and the check to the controller for audit. The controller, after audit, enters the amount of the check in the cash payments journal (In State Bank establishments with centralized machine accounting, the cash journal is not kept by the controller, but by the operations clerk.), and also in the messenger notebook, and then sends the check (against receipt in the messenger notebook or the cash disbursements journal) to the cashier's office. The cashier, after verifying the signatures of the bank officers, calls the payee by the number of the control stub, and after asking him

what amount he is to receive, makes the payment. At the end of the day the following entries are made in the general journal from the cash disbursements journal (after proof against the cash): Debit clearing or current accounts, credit "cash" account.

5. THE BANK'S CONTROL OVER THE DISBURSEMENT OF WAGE FUNDS

Budget and khozraschet institutions must furnish the bank with the certificate of the local Finorgani on the registration of their staff complement with, or their exemption from, such registration. The bank follows up to make sure that the funds received for wage payments by khozraschet and budget institutions correspond to the actual number of employees and the amount assigned for wages, without exceeding the wage fund registered by the NKF organs and confirmed by the higher-level organizations.

For this purpose, budget and khozraschet institutions, when drawing cash from the bank for the wage payments of the second half of the month, present a certificate to the bank, showing: number of employees authorized and number presently employed, wage fund authorized and its present status; settlements with employees on leave; wage deductions for taxes and government bonds; amount already received for wage payments from the bank during current month; balance still to be drawn from bank.

On checking this certificate with the figures on the wage payment fund authorized and registered with the Finorgan, and on

the amounts already paid out, the bank pays out funds for wage payments. At the same time the clients authorize the bank to transfer from their clearing or current accounts the amounts withheld from wage payments for taxes, installments on subscriptions to government loans, and social insurance deductions. Amounts not paid out within three days to workmen and other employees must be returned to the bank. (On the instructions of the clients, the compensation to workmen and other employees for unused leave during wartime was transferred from their clearing account accounts or current accounts of such clients to special deposit accounts opened in a savings bank in the name of the worker involved.)

The bank keeps track on a special card of the funds issued for wage payments to each separate budget institution or khozraschet organization. This card shows the authorized complement of workers, the authorized wage payment fund, the dates of disbursements therefrom and the amounts disbursed by the bank for this purpose. Monthly reports covering the issuance of funds for wage payments to budget and khozraschet organizations are drawn up from these cards. These reports show for each government department (Narkomat) the number of organizations, complement of workers (authorized and payroll), wage payment fund authorized, gross amounts paid and cash amounts paid.

The branches send these reports to their Regional Office on the 8th, and the Regional Branches send summary reports for the Kray or Oblast to the Head Office on the 15th. The accuracy of the wage payments made by each organization is audited monthly

by the bank's wage payment control inspector or credit man. The amounts of any overpayments made by each organization is audited monthly by the bank's wage payment control inspector or credit man. The amounts of any overpayments by the bank are deducted from the payments made by it during the following month. Funds for payment of premiums are issued only when there is a special assignment to the Khozorgan for that purpose.

All state and cooperative industrial enterprises (factories, plants, power stations, mines, workshops, etc.) must have quarterly wage payment funds, broken down by months and confirmed by higher-level organs. The wage payments made by industrial enterprises must correspond to the stage of fulfillment of the production program. If the percentage of utilization of the wage payment fund exceeds that of the fulfillment of the production program, the condition is termed relative overexpenditure of the wage payment fund. For instance, if 90 percent of the wage payment fund has been withdrawn when 85 percent of the program has been fulfilled there is a relative overexpenditure of 5 percent. The bank, of its own authority, will issue funds to cover the first relative overexpenditure not exceeding 10 percent of the monthly planned fund, but such overexpenditure must be made good during the following month. The covering of a repeated relative overexpenditure not exceeding 10 percent of the planned fund, must be authorized by the director of the Glavka or trust. Funds may be delivered to cover a repeated relative overexpenditure exceeding 10 percent of the planned fund only with the authorization of the Narkom having jurisdiction. Where necessary, the wage fund must be redistri-

7

buted within the trust or Glavka.

If the amount of the wage payments charged (for instance 105000 rubles) is higher than the amount of the fund (say 100000 rubles), there is an absolute overexpenditure of the fund (amounting to 5000 rubles.) The Narkoms and the directors of Glavki and trusts must eliminate absolute overexpenditures by internal redistribution of the wage payment fund, so that the amount of such wage payment fund authorized for the trust, Glavka or Narkomat is not exceeded.

When the productive program is overfulfilled by an industrial enterprise, the State Bank increases its disbursements of funds to it for wage payments. The amount of relative overexpenditures must be covered in due course by the Glavka or trust (by means of internal redistribution). Unless it is, the amount is deducted from the funds issued for wage payments in the following month. [From the context, it would seem that "relative overexpenditure" might well be a printer's error for absolute overexpenditure].

The enterprise submits a monthly report to the bank covering the wage payments and showing the percent of fulfillment of the productive plan in terms of gross production turned out during the month involved.

From the cards showing the funds disbursed by it for wage payments, the bank prepared a monthly report of funds disbursed for wage payments of industrial enterprises. This report gives the data for each government department (Narkomat), separately arranged for enterprises fulfilling and overfulfilling the

productive program and for those failing to fulfill it.

With respect to enterprises in the first group, the report shows: (1) number of enterprises; (2) authorized wage fund; (3) enumerated wage fund; (4) amount of wages disbursed (showing separately the number of enterprises and amounts of wages issued in excess of the percentage of the fulfillment of the production plan); (5) amount of cash wages; (6) amount of authorizations received on account of reallocation of the fund; and (7) number of enterprises (covered by such authorizations).

For enterprises in the second group (not fulfilling the production program) the report also indicates who has authorized the disbursement of wages above the percentage of program fulfillment.

The bank makes periodic verifications at the premises of the enterprise as to the correctness of the certificate on the enumerated wages and as to the correctness of the use of the funds in payment of wages.

The bank demands a certificate from the enterprises and organizations to which the above system of control does not apply (for instance, agricultural organizations) showing the [actually accrued] wages, and the fund authorized for it.

6. THE CONDUCT OF CLEARING OR CURRENT ACCOUNTS

The bank keeps a detail clearing or current account for each client. There are a number of formalities, as we already

know, that accompany the opening of an account. Such opening must be authorized by the manager of the bank branch and initialed by the chief bookkeeper. A special "register of active accounts" is kept for each balance-sheet account.

Every entry to a customers account must be based on the proper document, to which it must specifically refer. It is necessary to be very vigilant that no debit balance arises on clearing or current accounts. For this purpose an account must always be balanced after each debit entry, or after a number of them made simultaneously. Under decentralized machine accounting, the entries are made and verified during the execution of the operation itself. If the machine service is centralized (in a factory or department of mechanized accounting), then the operations do not coincide in time with the entries to the customers' accounts, which usually takes place after the operation has been completed. In this case the operations brigade is compelled to keep their own operative customer's account -- called a staffel -- in order to be able to conduct operations and allow the client to dispose of all its funds, including the credit entries for the current day. In this staffel the amount of each turnover is entered without text, and a new balance shown after each debit entry. Sometimes a position-sheet is kept, which shows the balance of the account at all times. All entries to the detail accounts and the documents on which they are based, are subjected to a careful visual control.

The balance of a detail account carried forward to the following day is transferred to the balance control-sheet, while

Form No 11

State Bank

Voronezh Oblast Regional Office

Clearing Account No 60012

of VORONEZH PROMTORG

address: ul. Plekhanova, 25

Sheet No 3
Balance sheet account No 60
Under jurisdiction of Nktorg

(1) Date	(2) Explanation	(3) Contra account	(4) Document No	(5) E n t r i e s Debit	(6) C r e d i t Credit	(7) Balance Credit	(8) Checked by Controller
	March Balance brought forward				60,780.95	60,780.95	Ivanov
3	Deposit	18	13	-	20,000 -	80,780.95	Ivanov
4	Crossed check from Alcohol Plant on V/list No 15	55	23	-	6,320 -	87,100.95	Ivanov
7	Check No 795574	18	15	5,100		82,000.95	Ivanov
-	V/order No 349	190	16	520		81,480.95	Ivanov
-	Income Tax Transferred Check No 795340	011	17	480		81,000.95	Ivanov
10	Received on Bill No 4855	264	89		15,000	96,000.95	Ivanov
13	Posting Memo	263	120	26,500		69,500.95	Ivanov
15	Limited Checkbook issued	219	112	15,000		54,500.95	Ivanov

Form No 11 cont'd

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
17	Credited Loan Against Settlement Documents in Transit	061	87		40,600	95,100.95	Ivanov
21	Issued Letter of Credit to Kursk	236	49	25,000		70,100.95	Ivanov
22	Received Transfer from Michurinsk. Promtorg	28h	152		12,450	82,550.95	Ivanov
15	Liquidated Time Loan No 119	061	160	30,500		52,050.95	Ivanov
27	Credited Balance of Letter of Credit	236	104		1,150	-	Ivanov
-	Transferred V/Remittance Order No 360	167	92	8,000		-	Ivanov
-	Transferred v/Remittance Order No 361	192	93	7,000		38,200.95	Ivanov
29	Charged Interest on Loans (Transferred to Loan Accounts)	251	89	725		37,495.95	Ivanov
-	Credited Interest on Account	252	90		381.77	37,857.72	Ivanov
31	Charged Fine for Violating Rules of Document Circulation	255	80	100		37,757.72	Ivanov

Total

118,925 95,901.77

the debit and credit turnovers, added up for all the detail accounts of a given balance-sheet account are entered on the summary card of the balance-sheet account. These cards and the balance control sheet for the separate accounts are utilized in the proof of the analytical accounting against the synthetic (see chapter 3). The balance control-sheet of the personal accounts are also used for accruing interest. These are mentioned below. We present an example of a customer's clearing account for illustrative purposes on the following page.

7. THE ALLOWANCE OF INTEREST

So that the interest allowed may be reflected in the customers account during the same quarter, interest is figured for the first quarter only for 84 days (30 days of January, 30 days of February (Each month is conditionally taken as 30 days) and 24 days for March), for the second and third quarters, 90 days each (for the second quarter 6 days of March, 30 days each for April and May, and 24 days for June ; and by analogy for the third quarter: 6 days for June, 30 days each for July and August and 24 days for September,) and 96 days for the fourth quarter (6 days for September and 30 days each for October, November and December). The interest computation is prepared during the course of the quarter and is posted to the account during the last 6 days of the quarter, and on the 31 December for the fourth quarter.

Interest is computed according to interest numbers, which are based on the daily balance of the account. These balances are taken from the balance control-sheet. On those days when the

balance is unchanged (when there was no movement in the account) the balance for the preceding day is repeated.

The interest numbers is a part of the formula for computing interest, namely: The amount, multiplied by the number of days and divided by 100. For this reason the interest number is obtained at the end of the month by adding the thirty balances of the account during the month, omitting kopeks, and dividing the total by 100.

To calculate the interest, the interest number must be divided by a constant divisor, i.e. by the quotient of 360 (days) divided by the interest rate. The interest rate for clearing and current accounts has been set at 1.5 percent.

Let us take an example. The total of the balances for a customers account was 4,832,520 (30 balances), 2,411,050 for February (30 balances), and 1,922,020 for March (24 balances). We obtain the interest number for each month by dividing each of these numbers. For the entire first quarter the total of the interest numbers is 91,655 (48325 24110 19220.) The constant divisor for an annual interest rate of 1.5 percent is 240 (360: 1.5.) To find the total interest, we divide the total of the interest numbers by the constant divisor, (91655: 40) and obtain the amount of 381 rubles 89 kopeks. This amount is credited to the detail clearing account. All interest allowed is entered as follows: debit to account No 252 "Operating expense"; credit clearing or current accounts.

To verify the accuracy of the interest numbers, they are computed not only from the daily balances of the analytical customers account, but also from the balances of the synthetic account that embraces the corresponding customers account. Both calculations must give the same result. The interest numbers for each month are entered on a special statement. There are also separate statements for the computation of quarterly interest and for the entire year (on current accounts.)

8. CLOSING A CLEARING OR CURRENT ACCOUNT

An account is closed on the initiative of the client or of the bank. When the account is closed, the client confirms the balance and returns the remaining unused blank checks, which are cancelled by the bank so that neither the checks nor their control stubs can be used, perforating them by cutting off the place for signature, after which they are filed with the documents of the day. Interest is computed on the account to the day it is closed, and is credited to the account. The balance of the closed account together with the interest, if no other disposition is made of it, is credited to the account "Other debtors and creditors" and until barred by the statute of limitations (1.5 years) may be withdrawn by the client or disposed of according to its directions.

9. THE ACCEPTANCE FORM OF SETTLEMENT AND THE COLLECTION SYSTEM

As has already been mentioned the acceptance form of

settlements is the basic one, and is distinguished from the other forms by the fact that the settlement takes place at the locality where the payer keeps his clearing account, that his consent (acceptance) is essential, and that it is limited to the amount in the account. From 1931 until 1 March 1936, (or in some case 1 February 1936) the bank serving the payer (We shall term this the payer's bank in future, for the sake of brevity) received the documents on which the demand of the supplier was based -- invoice accounts -- directly from the supplier. If the payer consented and had the funds to the invoice-accounts, the amount charged to its clearing accounts was sent by the bank to the supplier city for credit to the latter's clearing account. Thus the bank servicing the supplier (Henceforth called "supplier's bank".) did not participate in the verification and dispatch of its invoice accounts, but merely know of the arrival of payments for them.

The bank did not check the timeliness of the supplier's presentation of documents for payment, and could not correctly organize the financing of credit documents in transit, since it knew nothing of these documents.

If documents were lost, it was difficult to establish whether the supplier, postoffice or bank was to blame.

In order to eliminate these substantial defects and to improve the bank's servicing of settlement operations, the collection system was introduced in 1936.

Under this system the supplier's bank receives the payment

documents from the supplier, verifies them, and sends them to the place of payments. The payer's bank for its part sees to it that timely payment is made for the documents, and sends the amounts received from the payer, by debit to its clearing account, to the suppliers bank for credit to the account of the supplier. The essence of the collection system consequently consists in the bank's execution of commissions from its clients (the suppliers) to receive payments for their account (from the purchaser-payers.) The presentation of the documents for payment, and the payment itself, takes place through the bank in the process of collection. Naturally the collection system involves a large amount of work for the bank, but in compensation it considerably improves the organization of settlements in the acceptance form. Thanks to the collection system the bank began to check the settlements for goods and services, particularly the timeliness of the presentation of documents for payment, their bona fide commercial character, and their correct drafting. Under this system it has proved possible substantially to improve the procedure of bank financing to suppliers against settlement documents in transit.

To assure the efficiency of collection operations, the bank must: (1) carefully check the supplier's documents and refuse to undertake settlements that violate the rules, or are based on defective documents; to check the timeliness of the presentation of documents by the suppliers (as we shall see, the bank does not extend credit to suppliers against documents drawn and presented to the bank more than three working days after shipment, and, as a rule does not accept documents for collection if drawn after more than 30 days); (3) keep an exact record of the documents

accepted for collection from each supplier and, by verifying the data of this record with the data of the client, check the correctness of this record on the firm's books; (4) immediately, without any delay, send the documents to the place of payment on the day they are received and follow up their further disposition by asking the payer's bank what has happened to bills about which no word has been received up to the expiration of the period the document circulation expires, ⁽⁵⁾ to give each document a fixed maturity, follow up payment at this maturity and transfer all payments received without delay to the suppliers; (6) to safeguard the interests of the absent party to out-of-town settlements. Connected with this is the control by the bank of the bailment of the goods by a purchaser who refuses to accept the bill, the execution by the bank of the suppliers dispositions on reshipment or sale of the goods, surveillance over the order of priority of payments, and the imposition of a penalty for the benefit of the supplier.

The supplier is obligated, on the same day the bills are turned over to the bank for collection, to send the payer directly the invoice-accounts on which they are based, showing the numbers of such bills on each invoice account. The supplier must attach to the invoice accounts sent to the payer the specification bills of lading, certificates of quality, and the other documents for which the contract provides, so that the payer may judge the composition and quality of the goods. A number of invoice accounts payable by the same payor may be included in a single bill. Each separate invoice account included in a bill may be less than

1000 rubles, but the total amount of the bill may not be less than 1000 rubles. This rule is waived for goods such as salt, matches, coal, wood, yeast, agricultural products, petroleum, cement, bricks, lime, alabaster, agricultural machines and spare parts, etc., and also for bills covering truck shipping charges and other services. The bank accepts bills for these goods and services from 250 rubles, in amounts of 250 rubles.

A three day period is prescribed for acceptance, counting from the moment the bill is received by the payer's bank, excluding the day of receipt by the bank and Sundays. Only working days are counted. For instance, if a bill arrives on Saturday 8 January, the acceptance period runs to the end of 12 January; the acceptance period for a bill that arrives on the 13th, expires on the 17th, at the end of the day, if the 16th falls on a Sunday.

In some cases the acceptance period may be extended for ~~payees~~ remote from the branches that serve them, with the authorization of the oblast Regional Office of the State Bank, but in no case, beyond seven working days.

A bill is accepted not on the arrival of the goods, but on the arrival of the settlement documents at the payor's bank. Since the quantity, assortment and price of the goods are shown in the invoice accounts, the payer can decide, on the basis of this data, whether to approve (accept) or disapprove (refuse to accept) the accounts for payment. Moreover, the payer usually disposes of other documents (specifications, certificates of quality, etc.), by which the correctness of the supplier's claim may be judged.

If the question of acceptance were to be decided only after arrival and visual inspection of the goods, the settlements would be very much slowed down and the payments delayed, since the goods usually arrive after the claims and invoice accounts. All disputes on quantity and quality of the goods for which payment is made by collection bills by the bank, are decided, not by the bank, but by judicial or arbitration organs.

The bank does not send payers (other than kolkhozes, Sel' sovents, party and Profsoyuz organizations) advice of the arrival of bills, but merely posts the lists; and the payers are obligated to watch these posted lists for the incoming bills payment claims against them. If the payor approves the payment of the supplier's claim, it sends no notice to the bank. A payer advises the bank in writing only if it refuses acceptance. This means that if no statement refusing acceptance is received from the payer within the established three-day period, then the bill is considered accepted and is subject to payment. This procedure is termed negative acceptance. It was established in 1936 and has considerably simplified banking practice. Before that time, acceptance was positive, i.e., the payer had to notify the bank in writing not only when it refused to pay but also when it consented to payment, or gave its acceptance (See page 123 for positive acceptance at the present time.)

The payer becomes the owner of the goods as soon as the time for refusal of acceptance has expired while payment is made, as a rule, seven days thereafter, except in certain cases fixed by law, when it is made on the day the acceptance time runs out,

or not later than the morning of the following day. This procedure is prescribed by the law of 4 June 1936 "on changes in the procedure of financing the goods turnover." Before that, payment in all cases immediately followed acceptance (subject of course to payer having sufficient funds). At the present time, payment on the same day on which the time to refuse acceptance expires is still made only in the following cases: Grain products, petroleum products, distilled liquors, in settlements with budgetary public organizations, in settlement for purchases from plants of the same system, in settlements for construction work with contractors for work actually performed, on accounts for electric and thermal energy furnished by power stations of industrial enterprises that have made special agreements to deliver energy to the public-use system, and for TASS services. The seven day postponement of payment is provided by the same law to allow the payers more freedom in handling their funds so that they can organize the proper payment of their obligations better.

The former three-day period for certain types of payment was continued in force with the object of accelerating the flow of funds into the budget (the budget surcharges on grain and petroleum products and on distilled liquors.) On the other hand, payors such as budgetary public organizations, builders, etc., do not need to manipulate their funds and are thus able to make payment immediately after acceptance.

The suppliers' bank, the payer's bank, and the supplier itself are notified of the refusal to accept. The refusal may be complete or partial. In either case, the reasons must be specified. There

must be a special clause in the contracts of Khozorgane specifying all events that give the payer the right to refuse acceptance.

If the bank recognizes that the refusal to accept is well founded, the payer is obligated to accept the goods (accept perishables) in trust as bailee, while during the month, the bank must verify the fulfillment of this obligation by the payor at least twice a month and to draw up a protocol of such verification each time. If the trust goods are found to be short or missing the bank sends a copy of the verification protocol to the supplier, and charges the payer's clearing account with the corresponding amount, together with a penalty for the benefit of the supplier, and turns the case over to the public prosecutor.

Bills unpaid by reason of lack or insufficiency of funds in the payer's account, become executory documents, and are paid by the bank as funds become available, under the legally established priorities for payment (see page 167.) The bank assesses a penalty for past-due payments, and collects it for the benefit of the supplier.

At the order of the supplier the bank seals goods that have not been paid for and remits the proceeds to the supplier.

10. COLLECTION DOCUMENTATION

The basic settlement document under the collection system bill (see page 103) [form 13], which contains all the necessary and sufficient information for the bank to make the settlement. Copies of the invoice-account must under all circumstances be

attached to the bill. This is done so that a payer who has not received an invoice account from the supplier may be enabled, if it so desires, to have a more detailed characterization of the goods or services for which payment is demanded, and also to provide for the possibility of the bank's being obliged to verify the intactness of unpaid goods, or to reship or sell it. The supplier turns over its drafts to the bank for collection once a day, with a general list (schedule). Thus the supplier presents the following documents for collection to his bank: Three copies of the bills, one copy of the invoice accounts, and two copies of the list.

Examples of an invoice-account and a list are shown on pages 104 and 105.

[See forms 12 and 13 on following pages]

The most important requisites of a bill are as follows:

- (1) title and number of the supplier's clearing account and name of the bank where it is kept;
 - (2) Title and number of the clearing account of the payer, and name of the bank where it is kept;
 - (3) numbers and dates of the invoice account included in the bill;
 - (4) numbers and dates of the shipping documents evidencing shipment of the goods;
 - (5) kinds of goods;
 - (6) amount;
 - (7) date; when the documents prescribed by the contract where sent to the out-of-town payor;
 - (8) signatures and seal (on the original.)
- Requisites 4 and 5 serve as proof of the actual existence and bona-fide commercial nature of the account, since they show shipment of the goods as well as their nature. In some bills (mostly of enterprises in heavy industry)

Form 12

I. Supplier: Textile Factory of Mostekstil'

.....

2. Postal Address: Moscow, Rostokin, Ul. Marksa, 21 (2) Telegraphic address: Tekstil'naya

3. Clearing Account No 98,075 (3) In Shcherbakover branch of State Bank city of Moscow

4. Shipper and Address: Same

5. Consignee and address: 6. With bill No 1673 dated 2/26/45

Podolek Gorpromptorg, City Podolsk, Moscow Oblast, Ul Sovetskaya, 12

7. Order No 348 7. Date of order 8/1/45 8. Account No 1673 8. Date of Account 2/23/45

9. Payer and address: Podolsk Gorpromptorg 12 Amount of Account
Ul Sovetskaya, 12 10 Clearing account No 60042 Settlement Price Difference to trust or Deduction for
11 Bank State Bank 11 In City Podolsk, Moscow Oblast 23,200 combination Budget Income
1,800

13. Customer Placing Order: Same

14. Amount in words Twenty-five thousand rubles Total amount of sale R 25,000

15. To Station Podolsk 16. From Station Moscow

17. Date Shipped 2/23 18. Method of Shipment

19. Bill of Lading/ Receipt No 073482

20. Packing Charges 20. Number of Places 20. Weight

21. Supplementary Data

22. Subject of a/c (Marks, quantity, price) / Quantity / Unit / Price / Amount

195

Form No 13

Document return : Supplier: Textile Factory Mostekstilya
 date : and its address: Moscow, Rostokino, Ul, Marksas, 21
 (To be entered by : clearing a/c No 098075 in Shcherbacover Branch of State Bank
 supplier's bank)

Payment Date
 (To be entered by
 payer's bank)

I City Moscow
 Copy

Kray or Oblast, Moscow

MFO No 20116

Date 26 February 1945

BILL NO 1673

Date of Arrival at payer's Bank	Payer and its address:	<u>Podolskiy Gorpromptorg</u>			
	Clearing a/c No 60042	<u>In State Bank in city of Podolsk</u>			
Kray or Oblast, Moscow	Customer Placing order:	Same			
Invoice Account	Shipping Documents	Kind of Goods	Amount of bill	No 98075 Clearing Account of Supplier	R 23,200
No Date	No Date			No 90070 Subaccount Combines	R 1,800
1673 2/23/45	73482 2/23/45	Textiles	25,000	Balance Sheet a/c No Deduction for NKF	R
Account invoice forwarded to payer					
TOTAL (Amount of Sale)	Twenty- Five Thousand Rubles (in words)				R 25,000 (In figures)

Seal and Signature of Supplier

Stamp of Supplier's Bank

Penalty for _____ days R

Total amount
transferred by MFO R

Advice No
 Dated _____, 194
 (Date of Payment)

Receipts cashed-in

To be presented by supplier to its branch of the bank
 and forwarded by the latter to payer's bank

Form No 14

Front of List

Supplier: Textile Factory of Mostekstil'

Address: Moscow, Rostokino, Bl. Marssax, 21

Clearing Account No 98075

State Bank in City of

Moscow, Shcherbakovsk Branch

LIST OF BILLS PRESENTED FOR COLLECTION

No 220 Date 26 February 1945

We present herewith 4 bills

With invoices in
the amount of / R 115,000 Date list Rec'd by Bank 26 February 1945(One Hundred Fifteen Thousand Rubles)
(In Words)

Checked

Controller (Signature) _____

Operations Clerk (Signature) _____

and request you to accept them
for collection (schedule on back)Receipt of mail room for bills to be
forwarded

Date 26 February 1945

Signature _____

BACK OF LIST

Serial No of P/P	Bill No	Amount	Remarks
1	1672	35,000	
2	1673	25,000	
3	1674	40,000	
4	1675	15,000	
	Total	115,000	

The Bank's rules for collection operations are known
to us, and we engage ourselves to obey them.

Director of the Factory (Signature) _____

Chief Bookkeeper (Signature) _____

1. Two columns are provided for the amounts: "to card-
file A" and "to card-file B". These card-files are dis-
cussed below. It is also desirable, in general, to have
bills to be used as collateral for bank loans included
in separate lists.The list is to be signed by the persons empowered by the supplier to dispost
of its account at the bank.

the amount may be divided into three parts: the settlement price, to be credited to the suppliers clearing account; a surcharge over the settlement price, to be credited to the account ~~or~~ subaccount. (Separate clearing subaccounts for accumulation are opened for out-of-town trust and Glavkas at the place where enterprises subordinate to them are located. The funds are periodically transferred from such subaccounts to the State Bank establishment where the clearing account of the higher-level organ is kept.) of the higher-level organization -- trust or Glavka -- of which the supplier forms a part; and amounts to be credited to the state income (budget surcharges and budget differences.). The settlement price includes all costs of production, often plus the normal planned profit of the enterprise. In receiving payment for its production according to the settlement price, the supplier disposes of the necessary and sufficient turnover funds, that is, of course, if it fulfills the plan with respect to production costs. If, however, production cost is increased above this level, then payment for its production according to the settlement price must inevitably result in financial difficulty, which serves as a signal that the plan has been violated. If the supplier were to receive the entire proceeds at its own disposition, including the difference above the settlement price, surplus turnover funds would be created in its account.

The supplier's account is also credited with the turnover tax and the shipping charges reimbursed by the purchaser, in addition to the settlement price. Naturally this has no effect on the turnover funds of the supplier, since it has actually paid the turnover tax into the budget income, while the shipping charges have

actually incurred by it for the account of the purchaser.

The supplier's list must have its seal and the signatures of persons authorized to dispose of the clearing account. This is required because it is the register that establishes the relations between the client and bank with respect to the collection operations and to financing against settlement documents in transit.

The purpose and movement of the above ^{enumerated} ~~documents~~ documents presented by the suppliers are as follows:

(1) The invoice account is sent to the payer's bank, which in turn sends it to the payer itself:

(2) the original bill is sent to the payer's bank and is, after payment, filed by it in the current file;

The second copy of the bill is sent to the payer's bank and after payment is returned (under advice) to the supplier's bank, which in turn forwards it to the supplier;

The third copy of the draft is used by the supplier's bank for accounting purposes and for checking the movement of the draft forwarded for collection; this copy is placed by the supplier's bank, in the card file of the principals (suppliers only) as an item for the customers staffels or accounts of the commitments (i.e., organizations that commission the bank to make collections for it,) and, after payment or return of the second copy to the supplier, it is then placed in the archive card file;

(3) the original register in the supplier's bank is bound together for the day and serves as a journal of the bills accepted

for collection from the suppliers; the second copy of the register, signed by the bank, is returned to the supplier as a receipt for the documents accepted for collection.

11. THE GENERAL SCHEME OF DOCUMENT CIRCULATION

The general document circulation for out-of-town collections is shown by the following scheme (see figure 8). For a clearer understanding it must be born in mind that the operation of collection passes through two stages in both the supplier's bank and the payer's bank.

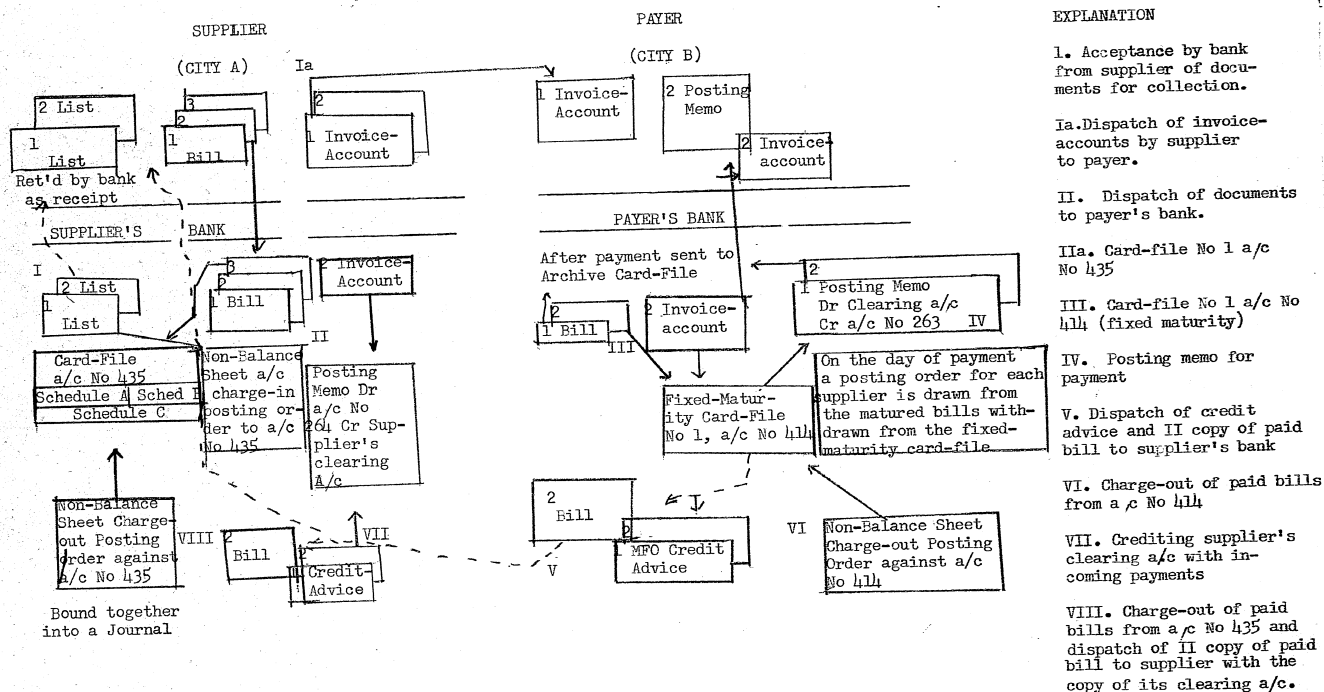
The first stage of the operation in the supplier's bank comprises the acceptance, verification, formalization and registration of the bill; the immediate dispatch, on the same day, of the original and second copy of the bills and the supporting invoice accounts to the payer's bank; and following up the disposition of the documents forwarded.

The first stage of the operation in the payer's bank consists in the receipt, registration, formalization and accounting of the incoming drafts and invoice accounts; in fixing the date of payment, and observing it; and in advising the payers by posting a list of incoming bills.

The second stage of the operation is receiving payment and forwarding it to the supplier. This stage naturally begins in the payor's bank. Here the following steps occur: Charging the supplier's clearing account (or sometimes its special loan account) with the amount of the bill; the documentary and accounting formu-

FIGURE 8

GENERAL SCHEME OF DOCUMENT CIRCULATION FOR OUT-OF-TOWN COLLECTIONS



lation of this charge (by posting memo and MFO advice); notifying the payor of the payment effected (copy of the posting memo and the invoice account); transfer of the amount collected to the suppliers bank for which the MFO credit advise and the second copy of the bill are used.

In the second stage in the supplier's bank the execution of the collection commission of the client is completed. The second stage of the operation in this bank consists of the following: Crediting the incoming payment to the supplier's account and advising it of such credit (using the second copy of the bill for this purpose); making the corresponding entry to the payer's bank and sending it a confirmation of the execution of its commission; charging out the bills (third copies) since they have been collected.

12. ACCEPTANCE AND DISPATCH OF DOCUMENTS FOR COLLECTION

The drafts accepted from a supplier are checked with the invoice accounts for number, date and amount, and with the register, for numbers and amounts. The requisites of the drafts are then checked (see page 102.) The first and second copies of the drafts are stamped by the bank branch to evidence the fact that they have been checked and accepted for collection.

It is then necessary to fix the period of document circulation for each bill, that is, the normal time within which the paid bill should be returned to the supplier's bank. There are two reasons why it is necessary to fix this period: (1) to make it easy for the supplier's bank to keep track, as is its duty,

of the timely receipt from the payer's bank of notification as to the disposition of the collection bill, and (2) to regulate financing for the supplier against settlement documents in transit (See Chapter VI).

To calculate the period of document circulation, the time of mail transit to payor's location must be known. Four days for processing the documents in both banks are added to the time of postal transit in both direction (from the supplier's bank to the payer's bank and return), and, in addition, ten or four days, (Four days, including Sunday, are added for documents with a three day payment-period. On the originals of drafts payable without delay, the supplier's bank enters the words "3-day period" with column "period for payment, and in settlements with military organizations "5-day period," "7-day period and" ten day period.") according to the category of payment.

We give an example to illustrate. An out-of-town draft for manufactured goods is received for collection 3 January. The time of postal transit to the place of payment is 6 days. The length of the document circulation period in this case is: $(2 \times 6) + 4 + 10 = 26$ days. Consequently the period of document circulation runs to $(3 + 26)$ 29 January.

Another example. A draft for flour furnished is accepted for collection on 6 January. Postal transit time is 4 days. The document circulation takes $(2 \times 4) + 4 + 4 = 16$ days, and the document circulation period thus expires $(6 + 16) = 22$ January.

It will be seen from these examples that the day the

documents are accepted for collection is not considered. The document return date, calculated in this manner, is shown on all three copies of the draft.

In checking the requisites, special attention must be paid to the numbers and dates of the shipping documents, as proof of the bona fide commercial nature of the bill by comparing this date with the date the bills are presented to the bank for collection. It is obviously in the interest of the supplier to have these two dates as close together as possible so as to accelerate the receipt of payment (other things being equal). The bank, on its part, cooperates by presenting the drafts to the suppliers as soon as possible, and refuses to finance drafts delivered to the bank for collection more than three working days after shipment of the goods.

In accounting for the documents forwarded for collection is formalized in chronological order by binding together and footing all the lists accompanying the drafts deposited for collection by suppliers during a day. The bound registers take the place of a journal. The systematic accounting is arranged according to the separate suppliers and consists of the customer accounts, without texts (staffels of the supplier-commitments. The items for these customer accounts (staffels) are supplied by the card indices in which the incoming drafts (in triplicate) are filed separately for each commitment and currently entered (during the month in question).

There is still another object in keeping the detail staffels

and card indices of the commitments. It is to show the number and amount of outstanding drafts in process of collection which can serve as collateral for loans granted by the bank against settlement documents in transit. For this reason the detail cards of the commitments are divided into three sections, according to the following scheme:

A	Drafts serving as collateral for loans	Drafts paid and charged off draft account during current month C
	B Drafts not serving as collateral for loans	

The drafts presented to the bank not more than three days after shipment of the goods are placed in section "A". A statement of the balance of drafts in this section is furnished the credit officer periodically (at least once every three days) and is used as material for regulating the account of loans against settlement documents in transit. (See Chapter VI). Drafts with a longer delay in presentation fall in section "B" and are not taken into account in financing settlement documents in transit. Drafts are also transferred from section "A" to section "B" when the time of document circulation noted on them has expired and they have not been paid owing to refusal of acceptance or lack of funds, advice to this effect having been received from the supplier's bank, and also drafts paid in part (such transfer being made when the first partial payment is received). The correct and timely transfer of drafts

from section "A" to section "B" is very important in fixing the extent of credit to be granted against documents in transit; this transfer is therefore checked periodically by credit men (The credit men (according to a definite plan) verify at the place of business of the Khozorgani the bona fide commercial character of the drafts and the accuracy of the requisites, especially that of the shipment dates. Presentation of the original shipping documents and other documents certifying the fact and the date of shipment of the goods is required by the bank from Khozorgani that deliberately draw bills inaccurately (to obtain exaggerated bank credit against settlement documents in transit). These documents are returned to the Khozorgan after verification.)

The movement (incoming, outgoing, balance) in each section of the card-index, i.e. schedule "A" and schedule "B", as well as the transfer of drafts from schedule "A" to schedule "B" may be followed on the customer's staffel. Its form is shown on pages 113-114 [Form 15]

All of this analytical accounting is controlled by the synthetic non-balance-sheet account No 435, which bears the caption "Settlement documents forwarded for collection. Only a single aggregate staffel of the form used for the customer's commitent staffels is kept. In the first stage of the work, the supplier's bank makes postings to the incoming side of both the aggregate staffel of that controlling account and to the staffels of the separate commitent's accounts. The entries to the outgoing side are made, as we shall see, during the second stage of the work by

Form 15

Schedule A (Collateral)				Excluded from collateral (transferred from Schedule A to B)		Schedule B		Balances		Total ¹		Checked by Controller			
Date	Increase	Decrease			Increase	Decrease	On Schedule A (Bal. of collateral)	On Schedule B	a/c No 435						
	No of Bills	Amount	No of Bills	Amount	No of Bills	Amt	No of Bills	Amt	No of Bills	Amt	No of Bills	Amount			
1	2	3	4	5	6	7	8	9	10						
FROM STAFFEL OF TEXTILE FACTORY OF MOSTEKSTIL ¹ (Figures)															
						45	465,000	65	549,000	51	549,000	Ivanov			
2/26	2	65,000	-	-	2	50,000	-	-	47	530,000	8	125,000	55	655,000	Ivanov
FROM STAFFEL OF SHOE FACTORY "PROLETARKA" (FIGURES)															
						38	365,000	4	35,000	42	400,000	Ivanov			
2/26	4	102,000	-	-	2	38,000	-	-	42	467,000	6	73,000	48	540,000	Ivanov
FROM GENERAL STAFFEL OF ACCOUNT NO 435 "SETTLEMENT DOCUMENTS FORWARDED FOR COLLECTION" (Figures)															
						83	830,000	10	110,000	93	940,000	Ivanov			
2/26	6	167,000	-	-	4	88,000	-	-	89	997,000	14	198,000	103	1,195,000	Ivanov

[Column headings are omitted on page two of form No 15, as all columns are the same with the exception of dates]

Form 15 cont'd

1	2	3	4	5	6	7	8	9	10
FROM STAFFEL OF TEXTILE FACTORY OF MOSTEKSTIL'									
(Figures)									
						47	530,000	8	Ivanov
							125,000	55	655,000
2/27	15	178,000	13	180,000	1	12,000	-	-	6
						94,00	48	516,000	3
							43,000	51	559,000
									Ivanov
FROM STAFFEL OF SHOE FACTORY "PROLETARKA"									
(Figures)									
						42	467,000	6	Ivanov
							73,000	48	540,000
2/27	-	-	18	198,000	1	9,000	-	-	4
						35,000	23	260,000	3
							47,000	26	307,000
									Ivanov
FROM GENERAL STAFFEL OF ACCOUNT NO 435 "SETTLEMENT DOCUMENTS FORWARDED FOR COLLECTION"									
(Figures)									
						89	997,000	14	Ivanov
							198,000	103	1,195,000
2/27	15	178,000	31	378,000	2	21,000	-	-	10
						129,000	71	776,000	6
							90,000	77	866,000
									Ivanov

the supplier's bank. The staffel entries are made for the totals (incoming and outgoing) for the day. Non-balance-sheet incoming and outgoing posting memos are drawn to support the entries to the general journal and the general staffel of the above-mentioned control account.

We illustrate what has been said on the accounting with account No 435 by an example. Assume that on the 26 February documents of the following supplier-drawers were accepted for collection and dispatched for collection.

1. Textile factory Mostekstil, List No 220, for R. 115,000 with drafts as followed (with copies of the invoice-accounts):

No	Amount	Remarks	In process of collection (of items previously accepted for collection from the same factory)
1672	35,000	Assigned to B	On Section A 45 items
1673	25,000		R. 465,000
1674	40,000		On Section B 45 items
1675	15,000	Assigned to B	R. 75,000
	115,000		

2. "Proletarka" shoe factory, List No 240 for R. 140,000, with bills as follows (and copies of the invoice-accounts):

No	Amount	Remarks	Balance of collection bills from the same drawer:
(1)	(2)	(3)	(4)

(1)	(2)	(3)	(4)
2079	18,000		
2080	24,000	Assigned to B	In section A 38 drafts
2082	21,000		R. 365,000
2083	14,000	Assigned to B	In section B 4 drafts
2085	27,000		R. 35,000
2087	36,000		

140,000

In the general journal for 26 February on the receipts side of account No 435, 10 drafts, totalling R. 255.000 are entered (based on a non-balance-sheet receipts posting memo for receipt of 6 drafts, totalling R. 165,000 in Section A of the card file and 4 drafts totalling 88,000 in Section B thereof.)

The entries to the customers' staffels and the general staffel will be in the same form (To save space we show only a single card divided into three sections instead of three separate cards.) (see table on page 112) [Form 15].

In the caption of each customer's staffel the full title of the committent is shown, together with its clearing account number and the percent of reduction from the total amount of collateral (section A) to obtain the credit line (the bank grants credit to suppliers on the basis of the settlement price -- see Chapter VI).

To avoid having to return in the sequel to the procedure for posting to the staffel, we continue the foregoing example

and now examine the entries on the reduction [or delivery] side.

On the 27 February the following operations took place in the card file of Mostekstil' textile factory: (1) 15 new drafts in the total amount of R. 178,000 were accepted for collection; (2) the period of document circulation expired for one draft and a telegram was received from the payer's bank that the payer had refused acceptance; the draft was transferred from section A to section B; (3) payments arrived for 13 section A drafts totalling 180,000 rubles and 6 section B drafts totalling 94,000 rubles. The following changes took place in the card file of the "Proletarka" factory: (1) payments arrived for 18 schedule A bills totalling R. 198,000 and 4 section B drafts for 25,000 rubles; (2) the document circulation period expired for one draft for R. 9000, and a telegram was received stating that the payer had no funds; the draft was transferred from section A to section B (To reflect these operations in the synthetic accounting, the following non-balance-sheet posting orders for account No 435 must be drawn: (1) receipts side: 15 drafts accepted for collection, total R. 178,000 and (2) outgoing side: payment: section A, 31 drafts, total R. 378,000 and section B, 10 drafts, total R. 129,000.

These operations are reflected in the following manner on the customer and general staffels of account No 435 (see p. 114). [Form 15].

As is evident from these examples, the new drafts entered for collection are added to the account on columns 2 and 5, while the old drafts removed by payment or return to the suppliers are

written off the account on column 3 and 6.

Both classes are reflected, through non-balance-sheet posting memos, in account No 435. Besides this, column 4 shows the transfers from schedule A to schedule B, which are not reflected in this account. This column is outside the system, but is taken into account in bringing down the balance by schedules of the card file: the balance for schedule A is reduced by the number of pieces and total shown by column 4, while the balance of schedule B is increased accordingly, and the total balance for the account as a whole of course remains unchanged. Notations on the transfers from schedule A to schedule B are made in the general staffel exclusively on the basis of the column 4 entries for all customer-collection staffels and are checked by the controller against these sources.

Finally, the first and second copies of the drafts and the invoice-accounts are sent to the payer's bank in special envelopes (bearing a distinctive colored transverse line and the superscriptions "Registered Mail - State Bank"). Before dispatch, the accuracy of the enclosures in the envelope is checked by a special auditor. All this registered mail is entered in special books. The establishments of the NKSVYAZI must give special attention to the speedy dispatch of financial documents in these distinctive envelopes. Such establishments are punished for untimely delivery of these documents.

13. THE RECEIPT OF COLLECTION DOCUMENTS BY THE PAYOR'S BANK

The date of arrival, which is important for fixing the period

for acceptance and payment, is placed on the documents arriving for collection from other out-of-town branches of the bank and from correspondents (i.e. from other banks.)

They are then divided, according to payment periods, into three-day and ten-day bills. The categories of drafts payable in three working days are indicated above (see p. 101). All other drafts are payable in 10 days.

The payment date is placed on both copies of all drafts. In figuring the three-day dates, only working days are counted, while in figuring ten-day dates, all calendar days are counted, except the date of the document's arrival.

Example: A draft for flour supplied, received on 3 February 1945, is payable on the morning of the 8th (three working days are taken, excluding the day of arrival and Sunday, the 4th). A draft for manufactured goods, received on 14 February, is payable on the 24th (10 calendar days are figured, not counting the day of arrival).

The drafts are registered in a special journal, kept separately for three-day and ten-day drafts. The three-day draft journal also includes those paid without acceptance (for example, for electric power, water, etc. -- see pp. 127-128.) Such drafts are payable on the day after their receipt. One copy of the registration journal serves for the chronological posting to the receipts side of the non-balance-sheet account No 414 "Settlement documents for collection, for payment at fixed dates." The other copy must always be hung out in a conspicuous place for the in-

formation of the payers. One copy of the journal may be cut apart and the section relating to each client handed to it. Of course this can only be done in cases where the drafts have been arranged according to payors before journalizing. A receipts posting memo for account No 414 (Drafts for collection, of which payment has been deferred owing to military operations, are taken out (by lists as agreed with the suppliers) and are recorded on a separate account: at the supplier's bank, on account No 436 "Settlement documents, forwarded for collection, extended; at the payor's bank on account No 417. "Settlement documents for collection, extended".

We give an example of a filled-in registration journal;

[See form 16 on following page]

The draft numbers are shown in the journal (column 4) and, in addition, the numbers of the invoice-accounts, since the payor has only received the invoice-accounts from the supplier, but not the drafts. Subsequently the dates of payment or of return without payment are noted in column 9 of the journal, together with the other stages in the progress of the documents, such as, for instance, inclusion in the card-file of unpaid documents (which is noted in column 10).

The verified and registered drafts (both copies, together with the invoice-account, are placed in the card file (No 1) of drafts awaiting acceptance and payment. Card file No 1 serves to keep track of the timeliness of payment, for it is arranged primarily by date of payment, and within the items on each date, by payors. The general staffel is kept together with it. In large

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2/28	1	Date Received
-	2	Serial Collection Number of Payer's Bank
Moscow	3	City of Payer's Bank
1673	4	Serial Collection Number of Supplier's Bank
Textile Factory of Mostekstila	5	Name of Supplier
1673	6	Invoice-Account Number
Podolsk Gorprom-torg	7	Name of Payer
25,000	8	Selling Price
3/8	9	Date Paid or returned
10,000	10	Remarks

Form No 16

establishments of the bank the keeping of separate staffels by date of payment is recommended. The card file has ten movable partitions. Each of them corresponds to a certain payment date. The incoming documents payable in three days are placed after the third partition, and those payable in ten days are placed after the tenth partition.

14. PAYMENT OF BILLS FOR COLLECTION

If the payer has not refused acceptance and has free funds, the bank will make payment of its own accord on the due day, without waiting for the payor's dispositions. Payment is made by charging the amount of the draft to an account (clearing, current or special loan account) of the payer, and transferring it through the inter-branch transfer system to the supplier's bank. The payor and the supplier's bank are notified of the payment. When there are sufficient funds in the payers' accounts, all the drafts maturing at certain dates are turned over for payment to the corresponding operations groups or brigades. The second copies of the drafts and the invoice-accounts are used for this purpose. A posting memo is prepared for each payor (debit balance-sheet account and customer's clearing account of payer, credit account No 262 "MFO Initiated"), to which posting order the names of the suppliers are transferred, together with the numbers and amounts of all drafts to be paid, including local drafts as well. On the basis of the posting memo (first copy), the entries are made in the analytical accounting, i.e. the total amount of the memo is charged to the payer's account, and all of the drafts paid, listed in the memo, are also selected. A posting order on the delivery side of account

No 414 is drawn to cover the paid drafts. The first copy of the posting memo is then posted to the general journal and at the end of the day, after proof of the figures of the analytical accounting against those of the synthetic, is filed with the other documents of the day. The second copy of the draft is used as the basis for drawing the MFO credit advice. This advice shows the numbers of the collection bills which have been-paid and a single advice may include a number of drafts of a supplier, paid by a single payor. The date of this advice is entered on the paid drafts. The first two copies of the MFO advice, together with the second copies of the paid drafts, are sent to the supplier's bank by registered State Bank mail. The second copy of the posting memo and the invoice account are sent to the payor (with statement of its customer's account. Finally, the first copies of the paid draft, after payment has been noted in the registration journal (see above) and on the drafts itself, and after the number of pieces and total amount of the paid drafts have been charged off [posted to the reduction side] account No 414, are placed in the current file, arranged by days of payment and by payors.

15. PAST -DUE BILLS

If there are no funds or insufficient funds in the payor's account on the due date of an accepted draft, it becomes past due in full or as to the unpaid part. This involves the following consequence: (1) the payer loses independent control over its clearing account, since the bank proceeds to make compulsory debits against it for the payment of past-due drafts and other claims, under the

priorities established by law; (2) past-due drafts acquire the force of executions and are paid (in the order or priority) as it becomes possible, in full or in part; (3) the bank collects a penalty for the use of the supplier on all past-due payments; (4) in the event of habitual defaults, the bank may require all goods to be held in trust for the supplier until payment for them has been made; (5) the supplier becomes entitled to invoke the contractual sanctions (if such are provided for ⁱⁿ the event of non-payment); (8) a special notification is sent to the supplier's bank on prolonged defaults by habitual defaulters (i.e. those that repeatedly default in payment for more than 15-25 days) so that further financing of drafts drawn against such payers may possibly be refused.

Drafts that remain unpaid in full or in part at the end of the due date are placed in special card file No 2 and recorded as account No 415 "Settlement documents for collection, not paid at maturity", and are arranged according to client-payers, and, within the account of the separate payers, according to priority of payment and date of arrival. An individual staffel is set up for each defaulting payer, showing number of defaults and total amount; and such a staffel is also kept for card file No 2 as a whole. A transfer from card file No 1 to card file No 2 is noted in column 10 of the registration journal (p. 115) [Form 16]. All bills so transferred are included in a special schedule, which serves as a journal for card-file No 2. This schedule has the following form:

[Form on following page]

Form No 17

Date bill was filed in card-index No 1	Number of Draft	Name of Pay or	Amount	Receipt of Mail-room	Date of payment or return	Remarks
25 Feb	1117	Machine construction plant	12,000	-	-	-

The transfer is accompanied by a non-balance sheet reduction posting memo for account No 414 and a similar addition posting memo for account No 415.

The supplier's bank is immediately notified of the lack of funds for payment. If the mail transit time between the cities in which supplier's and payer's banks are located is more than 7 days, and in all cases when mail notice of default could not reach the supplier's bank before expiration of the document circulation period, such notice is telegraphic (using a code, i.e. conventional symbols instead of plain text). The notice shows the supplier's name, payer's name, bill number, amount and document return date. A special centralized control by the head bookkeeper, discussed below in section 24, has been set up to assure the timely dispatch of this notice, which has a very great economic importance and which the bank is obligated to give.

The defaulting payer still keeps the right to dispose only of that part of its clearing account which is necessary to meet its most urgent needs and varying (in the bank's discretion) from 2 to 5 percent of the average daily credits to the account during the past month. The allocation for urgent needs is earmarked on the account of the Khozorgan only until the end of the day. The remaining amount is used by the bank to satisfy the claims against the Khozorgan in question in the definite order of priority fixed by law (see section 45).

If a draft which has not been paid in full at maturity because of insufficient funds leaves the bank for any reason (for instance,

when the supplier orders it turned over to the marshal of the court), the bank makes an endorsement on the back of the original draft, in order to preserve its executory force ~~having the force of endorsement~~, to the effect that the unpaid balance and penalties thereon is subject to compulsory collection pursuant to the decree of the SNK USSR of 5 August 1936.

16. PARTIAL PAYMENT

If the free funds are insufficient for full payment of the bills in the second-card-file, a partial payment not under 1000 rubles is admissible. The entries for a partial payment are in no way distinguished from those made for payment in full and are expressed in the debiting of the payer's clearing account, and the passing of the debited amount to the credit of account No 263, accompanied by a reduction in the amount paid, of account No 415. The amount of the partial payment is indicated on the back of the draft and the unpaid new balance shown. The MFO credit advice is marked "Partial payment." The draft is sent to the supplier's bank only with the credit advice of the final payment that settles the account. The procedure adopted by the supplier's bank is described below in section 22.

17. IMPOSITION AND COLLECTION OF PENALTIES BY THE BANK

The contracts between Khozorgania usually provide for a penalty to be paid by the payer in the event of delay in payment. Since the fact of lateness in payment and its extent can be easily and indisputably fixed by the bank, it is obligated by law

to impose and collect a penalty for the use of the supplier on late payments. In figuring the delay, all calendar days are counted (not only working days) and all full thousands of rubles of the payment, 0.05 percent is charged for each day of lateness, with a minimum penalty of 10 rubles. If payment is made in several installments, the penalty is added to the final installment, and the length of default on each partial payment is taken into account. If the payer has insufficient funds in the account to pay the entire amount chargeable to it, including the penalty, payment is made to the extent of the funds available, and a special posting order is drawn in quadruplicate for the amount of the unpaid balance of the penalty. The order posted to the receipts side of account No 415 and is placed in card-file No 2, where it has the same priority as the original document. The bank has special tables for figuring penalties.

We present an example of the computation of a penalty. A bill for 25,000 rubles payable 10 May is paid as follows: 2500 rubles on 10 May, 2500 rubles of 19 May (9 days late), 7200 rubles on 22 May (12 days late), and 11,800 rubles on 25 May (15 days late).

A penalty is imposed on the day of the final installment, i.e. 25 May, computed as follows:

on the 2nd payment of 3,000 rubles for 9 days 13 rubles 50 kopeks
on the 3rd payment of 7,000 rubles for 12 days 42 rubles - kopeks
on the 4th payment of 12,000 rubles for 15 days 90 rubles - kopeks

Total

145 rubles 50 kopeks

The total is round out to 148 rubles.

18. REFUSAL TO ACCEPT

Reasons must be assigned by the payer for complete or partial refusal of acceptance. The bank, by its department manager or senior inspector, examines whether the reasons for such refusal comply with the established rules, and does not allow ungrounded refusals. By the bank rules, a complete refusal may be based on: a clause of the contract (or some provisions of law) giving the payer the right to refuse acceptance; or that the goods were not ordered; or that payment has already been made. A partial refusal (partial acceptance) is recognized as well-founded by the bank, if based on the following preasons: price increase, or surcharges imposed in violation of contract or contrary to the price-list; shipments of goods in quantities larger than prescribed (by contract or plan) for the current quarter or month; shipment of goods not ordered together with the goods ordered; failure to comply with the assortment agreed; arithmetical errors in the account.

The bank also accepts complete or partial refusal of acceptance by the payer due to incompleteness, non-standard or bad quality of the goods. Bad quality must be formally noted by the payer in protocols drawn up to that effect.

The limitation of reasons that can substantiate a refusal to accept has been adopted in order to prevent -- or at least render difficult -- abuses of this right by payers seeking to avoid payment. Refusal to accept is formally embodied in a telegram addressed by the payer to the supplier's bank and the supplier itself. This telegram is presented in triplicate by the payer to its own bank. The bank checks the timeliness of the refusal by

comparing the date of its presentation with the date the bill was received by it. It then verifies that the reason assigned is one of those above set forth, adds the document return date to the text of the telegram, and send the first copy. The second copy, signed by the client, is then attached to the bill, and a notation made on the bill that the refusal to accept has been duly received by the bank. The bank uses the third copy to charge the client's account with the amount of the telegraph charges. This is done periodically (every month).

The payer, on complete refusal to accept, is bound to accept the goods in trust as bailor for the supplier. No special document is drawn to certify this. (The bank has the right to demand that clients who habitually refuse acceptance without adequate grounds, produce documentary proof of the supplier's breach of contract (such as extracts from the contract, certificates as to its performance, etc) and to verify the intact conditions of the goods every 10 days (instead of every 15 days).

In cases where the purchaser refuses only a portion of the goods, he is obligated to accept this refused portion in trust for the supplier and furnish the bank with a certificate of the goods so accepted. The amount refused in this case is entered on the receipts side of non-balance-sheet account No 416 "Bills on which acceptance has been refused", as indicated below.

Both copies of the bills and all documents (the invoice-account, the copy of the telegraphic refusal of acceptance, and the certificate of the purchaser covering acceptance in trust as

bailee) are transferred from card-file No 1 to special card-file No 4 for account No 418. This transfer is embodied in an entry analogous to that made for transfer to card-file No 2. The outgoing posting order for account No 414 and the incoming posting order for account No 416 are handled similarly.

The documents in card-file No 4 are arranged in the order of their filing dates. They are kept in it for a month, and if during this time no disposition is received from the supplier (through his bank) about the goods covered by the unpaid bills, all of the above-mentioned documents are charged out of card-file No 4 and account No 416, the second copies of the bills are sent to the supplier's bank and the remaining documents placed in the current files.

Perishable products cannot of course be left in trust with the purchaser when he refuses acceptance, and must be liquidated on commission and the proceeds deposited with the bank for transfer to the supplier. In this case a customer's account is opened for the supplier under balance-sheet account No 210 "Other debtors and creditors", and the proceeds so realized credited to this account. The proceeds accumulating in this account are regularly transferred to the supplier's bank (through MFO Initiated)* at least every five days.

19. DEVIATIONS FROM THE GENERAL PROCEDURE OF DOCUMENT

CIRCULATION

If the bank has not received the bill, but the payer has received the goods, has funds and wishes to pay for them, he issues

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payment order to the bank. The client himself is bound to watch out to prevent payment being made a second time when the delayed bill arrives. To avoid such double payment the client must notify the bank of refusal to accept as soon as the bill for item already paid appears on the copy of the journal posted by the bank.

If the bank has no bill, and the payer no invoice-account for incoming goods, which goods the payer wishes to use, he is obligated, if he wishes to avoid liability for "uninvoiced deliveries", to issue a payment order to the bank, based on contract prices, previous accounts for the same articles, or other bases. When the actual amount due has been precisely determined, there is an adjustment between the parties: the supplier refunds any excess payments received or the purchaser remits the amount of any underpayment. Such adjustment remittances are made through the bank or through the organs of the Nksvyazi.

In view of the large proportions attained by "uninvoiced supply" (especially in wartime), the bank is obligated by a special government decree to take measures to cut it down as much as possible and provide for speediest liquidation. The bank follows up the state of the "Uninvoiced supply" account on the balance sheets of the Khozorgani and on the data specially obtained from them, and demands remittance orders from the Khozorgan-payers to pay for all freight that arrives without documents, if the suppliers are known, or for transfer to the state budget, if the suppliers cannot be determined.

Under the conditions of World War II the normal circulation of goods and documents was not infrequently upset, and many shipments were without documents, unordered, shipped too soon, or readdressed. A special procedure was set up to liquidate such freight shipments, with the participation of the carriers. They were appraised by a special commission, and turned over to the consignees ^{under} ~~under~~ protocols of acceptance and delivery. The carrier then forwards a copy of the act of appraisal (which takes the place of the supplier's account) to the payer's bank for collection, or deposits it for the same purpose in its own bank (if the payer is a client of another out-of-town branch of the State Bank), accompanied in either case by a copy of the protocol of acceptance and delivery. These documents are placed in card-file No 1 by the payer's bank and paid in three days, unless the payer's account has no funds, in which case they are placed in card-file No 2 and paid together with the execution. The amounts received for such shipments are credited to the deposit accounts (under balance-sheet account No 215) of the carriers (stations or landing stages). At the beginning of each month (not later than the 5th) the balances are transferred to the deposit accounts of the railroad or steamship administrations, which have the right to order the bank to transfer these amounts to the owners of the goods (the suppliers) or to the Union budget, if they remain unclaimed by the suppliers for six months, and to the income accounts of the transport system (for freight, shipping charges and storage).

Bills drawn against institutions and enterprises of the Nkoborome ~~Nkvm~~flota, NKVD, the militia, the defense and chemical

industries are not included in the copy of the journal posted by the bank. The original invoice-accounts are attached to such bills for certain classes of goods. In the remaining cases the suppliers send the invoice-accounts directly to the payers, and the shipping dates and numbers of the packages must invariably be shown on the bills.

Bills drawn against military and militarized organizations are arranged according to customers issuing the purchase order, and are registered in that sequence in the journal, which is made out in quadruplicate, of which three copies (accompanied by the original invoice-accounts, when these have been presented to the bank) are turned over to the payers, who indicate on one copy of the journal which bills are to be paid, and from what account, and which bills are refused acceptance (The declaration on refusal of acceptance is submitted in two copies, one of which is sent with the bill and the original documents to the supplier's bank.) This copy of the journal, formalized by the client's signature, is returned to the bank. The reasons for refusal of acceptance are communicated to the bank and are verified by it under the general procedure.

The acceptance period is extended to 7 days in the case of bills to which invoice-accounts are not to be attached (so that the payer may receive the invoice account [directly]), and to 10 days for the military departments (for settlements through the Finupravleniya of the Narkomaty).

Bills refused acceptance by payers that are military organizations are returned to the supplier or his bank and are not

placed in card-file No 4.

20. THE APPLICATION OF POSITIVE ACCEPTANCE

Kolkhozes, Sel'sovety, party and professional organizations receive notices of incoming bills, showing their due dates. Payment is made only on receipt of written dispositions from such payers. If neither refusal nor payment order is received during the period, a telegram is sent to the supplier's bank and the supplier advising that the bill has not been accepted. At the same time the bill is placed in a separate compartment of the same first card-file, where it is kept until 15 days have elapsed from the date it was received by the bank. After expiration of this period, the bill is charged out of account No 414 and returned to the supplier's bank.

Positive acceptance is also employed with bills for river military transport, for which the period of acceptance and payment has been fixed at 10 days for both out-of-town and local bills. However, when acceptance is not received from the payer within the period fixed, these bills are paid automatically by the bank.

21. COMPLETION OF THE COLLECTION OPERATION IN THE SUPPLIER'S BANK

In the normal course of the collection operation, the supplier's bank receives an MFO advice from the payer's bank, together with the paid bills. Notification of incoming collection payments must be made by mail. Only the remotest branches on a special list have the right of telegraphic notification, in order

to accelerate the turnover of funds.

After being checked for accuracy of address and drafting, the incoming credit advices and bills are arranged by suppliers and registered in a special journal, showing the numbers and amounts of the bills.

The credit advice is turned over to the operations group that keeps the supplier's clearing account. If the amount of the payment must be divided into parts to be placed at the disposition of the supplier, trust, Glavka and budget respectively (see p. 102), then the appropriate certificate (direction) is made out for the operations group from the second copy of the bill that has been received. The following posting distribution is entered on the credit advice: Debit account No 264 "Incoming MFO, credit balance-sheet account and personal clearing account of the supplier, of its trust, of its Glavka, etc. The corresponding personal accounts are then posted, and the advice turned over to the journal clerk for posting to the general journal. Subsequently the copies of the advice are used according to their purposes (see Chapter VII.)

The bills and registration journal are next turned over to the employee who keeps the card-file for account No 435.

The third copies of these same drafts are kept in this card-file. The date they are written off this account is noted on these triplicates. They are then footed and written off the personal staffels of the suppliers under schedules A and B. A reduction posting order for account No 435 is next drawn for the sum total of the bills charged out (after proof against the sum

total of the registration journal). The second copy of the bill is sent to the supplier with the next statement of his clearing account, while the third copy is filed in the schedule C section of the same client in this card-file until the file has been audited at month-end.

22. DEVIATIONS FROM THE USUAL PROCEDURE OF COMPLETING COLLECTION OPERATIONS

A collection is not always completed by the receipt of payment in full. The bill may be returned unpaid; there may be a part payment, a reduction in the amount of the bill, the incoming amounts may be left in the payer's bank in a subaccount of the supplier or the bill may be delivered on the supplier's instructions, to a marshal of the court for execution.

The payer's bank indicates the reason for return on bills returned unpaid. One such reason, in particular, may be a recall of the bill by the supplier (through his bank). The bank must adopt a critical attitude towards the reasons for a recall and investigate whether it is not intended to conceal a deliberately incorrect drawing of bills to obtain bank credits against settlement documents in transit. The same is true of reductions in the amounts of bills. Bills returned by the payer's bank without transfer of the amount of the payment through MFO are charged out of account No 435. No balance-sheet-account entries are made on this occasion.

Neither are entries made to balance-sheet accounts when a bill is paid in full by way of offset, or when payment for it (as for instance, with distilled liquors) is left as a subaccount of

the supplier at the payer's bank. In such cases, likewise, the only entry for a returned bill is the reduction of the non-balance-sheet account mentioned.

When the amount of a bill is reduced, the amount of the reduction is charged off account No 435, and a non-balance-sheet reduction order showing separately the amounts to be charged off schedules A and B of the personal staffel is drawn for each supplier involved. A copy of this order is placed in schedule C of the card-file; for without it a part of the reduction of this account would lack documentary confirmation and could not be broken down by suppliers. The reduction is noted on the third copy of the bill itself, and the new reduced amount is shown. All this is done as soon as the instructions to reduce the amount of the bill are sent to the payer's bank. Afterwards, when payment in the reduced amount is received, the operative accounting treatment follows the usual procedure.

The accuracy of the entries on the outgoing side of account No 435 is checked by means of the registration journal shown on page 122. Therefore it includes all the documents on the basis of which such entries are made, including confirmation of the payer's bank of the reduction of the bill by effect in the supplier's bank, confirmation of the delivery of the document to a court marshal for execution, etc.

On receipt of a credit advice covering a part payment, the sum thereof is credited to the detail clearing account of the supplier, and is only noted on the back of the third copy of the bill, without being charged off account No 435. Items are charged

off this account only on receipt of the final installment and of the bill itself. On receipt of a partial payment, however, the bill is removed from collateral, i.e. it is transferred, without book-keeping entries, from schedule A to schedule B of the card-file, without waiting for the document return period to run out.

Partial refusals of acceptance by the purchaser (or recalls) serve as signals that the supplier has drawn his bill incorrectly.

Such refusals and recalls are therefore recorded, with their reasons, on a special card by separate suppliers. These cards are studied daily by a credit inspector, and the bank may also make an inspection at the premises of the supplier.

Telegrams on refusal to accept in the full amount [full refusal, not partial refusal] are attached to the third copy of the bill involved, but in spite of the refusal the bill remains in schedule A until the document return period has expired.

If no word has been received from the payer's bank for five days after the document return period has run out, it is necessary to send in an inquiry. When the postal transit time to the payer's branch is over five days, such inquiries are made by telegraph. They are numbered from the first of the year and entered in a special journal-record (The answers are also entered in a special journal, one copy of which is posted for the information of suppliers. Lists of bills unpaid for lack of funds are also posted for their information.), while telegraphic inquiries are encoded. If there is no answer after five days, a second inquiry is sent, and measures taken to ascertain the disposi-

tion of the bill, which continues to remain in schedule A of the card-file of account No 435.

23. COLLECTION OF BILLS INVOLVING TRANSIT SHIPMENTS

In many cases plants ship their output directly to purchasers on the orders of "outlets", and both producing-plants and purchasers make their settlements with the appropriate officers of the "outlet" or "market". In the Narkomats of heavy industry the settlements of the "outlets" with the plants (making the shipments) are made through special accounts opened by the central administration of the "outlet" in the places where the plants are located (centralized settlements). In such cases bills on the purchasers are drawn by the plants not in their own names, but in the names of the corresponding offices of the "outlet", and are turned over to the bank for collection.

The enterprises of light industries and food industries likewise frequently ship their production directly to purchasers at the orders of "outlets", drawing accounts and bills for such "outlets" and depositing the bills for collection with the bank, not in their own name but in that of the "outlet".

In this way the transit collection of bills originates. Under this system, bills are deposited for collection with one establishment of the bank, the clearing accounts of the suppliers are kept in another establishment of the bank, while the clearing accounts of the payers are kept in yet another, third establishment.

Example: The Orek branch of the State Bank accepts for

collection from the Orsk copper sulfide plant (the shipper) a bill drawn by the plant, in the name of the Chelyabinsk office of Glavsnap Nktsvetmet (the supplier) on the Polevsk cryolite plant (the payer). The Orsk branch of the State Bank, in fact, merely accepts and verifies this bill, but does not include it in its own accounting, and only for reference purposes does it retain a single copy of the collection list (which in such cases is drawn in triplicate.) The remaining documents are dispatched as follows: the invoice-account and the first two copies of the bill are forwarded to the Polevsk (Sverdlovsk Oblast) branch of the State Bank, one copy of the collection list and the third copy of the bill to the Chelyabinsk Regional Office of the State Bank, while the last copy of the list is returned to the plant as the bank's receipt for the document accepted for collection. All the documents must be stamped "Transit". The supplier's bank (the Chelyabinsk Regional Office) either records the documents in the usual manner in account No 435 or (as in this particular case, since the transaction concerns settlements in heavy industry) the documents will be assigned to the local office of the "outlet" and the bank will periodically audit that office's accounting for the drafts. The transfer of the third copies of drafts to the offices of heavy industry "outlets" is in connection with a special procedure for financing such offices against settlement documents in transit.

The bank that accepts the documents for collection (the Orsk branch) indicates the mail transit time to the purchaser's bank (Polevsk) on the third copies of the transit bills, while the "outlet" offices add the mail transit time from the purchaser's bank to the supplier's bank (Chelyabinsk) plus 14 days. Inquiries

on the fate of transit bills are prepared by the offices of the "outlets" of heavy industry, but are dispatched by the State Bank establishment that serves them. The answers are turned over by the bank to the offices of the "outlets", which make the corresponding reductions in the account "Goods shipped".

In the payer's bank (Polevsk branch) the documents must be recorded in the usual manner on account No 414. Advice on the disposition of the bill is sent to the supplier's bank (Chelyabinsk Regional Office).

Payment from the special account of the "outlets" of heavy industry is made only on presentation by the plants of bills for collection for transit shipments, drawn on the purchasers.

24. THE CENTRALIZED CONTROL OF COLLECTIONS

The timeliness with which a branch dispatches notices, inquiries on the disposition of bills for collection, and answers to such inquiries made by other branches, is of exceedingly great importance for the national economy, since it affects the principal mass of settlements for the intercity goods turnover. Delay of inquiries and answers slows down the rate of turnover of economic resources. The inefficient work of a collection group may result in the bank granting a supplier excessive credit on settlement documents in transit, since bills with disposition unreported continue to be financed [to be good collateral] even after the document return date has passed. A special control over this work is exercised by the chief bookkeeper. Every ten days the chief

bookkeeper's office checks the work of the collection group with respect to delay of notices, inquiries and answers. All inquiries arriving from other branches about the disposition of bills for collection pass through the chief bookkeeper's office, which registers them in a special schedule and sees to it that the answers go out on the same day. Twice a month the managers and head bookkeepers examine the bills on which the document circulation period has expired and take the necessary measures.

25. ADJUSTMENT OF THE CARD-FILES OF COLLECTION DOCUMENTS

Once a month the card-files for accounts No 414, 415, 416 and 435 are adjusted [reconciled] and an inventory taken, i.e. the cards in these files are compared with the balances shown by the corresponding accounts. For accounts No 414, 415 and 416, the number of bills and their total amount, in each of the three card-files, is footed (on the "DSM" machine) and each of the three totals is proved against the balances of each of these accounts.

The card-file for account No 435 is checked by drawing up an inventory (of the numbers and amounts) of all bills in schedules A and B of each supplier-principal, and proving these inventories against the personal staffels of the clients.

A list of the balances is then drawn up from the staffels of the principals. The sum total of this list must agree with account No 435 and with the general staffel for this account. After adjustment of the card files, all the bills in schedule C, being charged off that account (No 435) are placed in the

archive card-file (also arranged by suppliers).

The above-mentioned inventories of the bills in the card-file of account No 435 are sent once every quarter to the suppliers, who are required to confirm their correctness to the bank or point out any errors.

26. PAYMENTS NOT REQUIRING ACCEPTANCE

Payments for communal services (gas, water, sewer service), payments to carriers for freight in direct and mixed railroad and water routes, payments for telephone and radio service, and for electric and thermal energy, according to the established tariffs, are made without ~~acceptance~~ ^{acceptance} on the day the documents are received by the bank or on the following day. This is explained by the fact that the payer has actually used the services or energy in question, while the amount to be paid is fixed on the basis of the readings of mechanical meters and generally established tariffs.

If payment is made for the communal and other services pursuant to a special tariff established by contract between the parties, then the payer has the right to refuse acceptance. On the other hand, payment without acceptance may be extended, by contract between the parties to apply to payments for postal and telegraph service and for rent of space in communal buildings.

All accounts and bills payable without acceptance must be stamped "Without acceptance". If they come from other cities,

they are registered together with the three-day bills, but are paid on the day of their arrival or on the following day.

27. PECULIARITIES IN THE DOCUMENTATION OF SETTLEMENTS FOR CAPITAL CONSTRUCTION

Bills for materials furnished or services rendered for capital construction are not paid from the general clearing account of the Khozorgan, but either from its special account in which funds for capital repairs are kept, or at the instructions and for the account of the special bank that finances the construction involved. In either case, besides using the other methods of financial control discussed in Chapter XII, the bank verifies the prices for building materials and equipment, as well as the agreement of the amounts to be paid with the contract conditions and with the work actually performed.

This fact is responsible for several peculiarities in the documentation and document circulation in settlements for capital construction.

The invoice-accounts, bills and collection-lists in such cases must bear an additional requisite: the stamp or superscription "For capital construction", opposite the prices, extras and surcharges, the invoice-accounts must show the page numbers of the catalogs or price-lists or the clauses and dates of the contracts from which such prices and norms for surcharges were taken. Accounts for trucking must show the distance. The

certificate of acceptance confirming actual performance of the work and its acceptance by the customer are annexed to the contractors' accounts (for the last ten-day period of the month). The invoice-accounts are not sent to the payer after payments, as is usually done, but are placed in a special packet from which it may rapidly and in consecutive order be ascertained whether the prices have been properly checked by the bank. Bills that cannot be paid for reasons of financial control (for example, absence of a certificate that the estimates have been confirmed, absence of a copy of the contract with the builder, etc.) are placed in card-file No 4 on the due-date, and the bank advises the supplier or contractor. If the obstacles to payment have not been eliminated within a month, the documents are returned unpaid to the bank that forwarded them.

The remaining documentation of settlements for capital construction is no different from the usual procedure.

28. SETTLEMENTS ON SMALL INVOICE-ACCOUNTS

Settlements for amounts under 1000 rubles, and in a number of cases, for amounts under 250 rubles, are made without using the bank's facilities, by means of transfers through the Nksvyazi establishments or by COD shipments. The supplier that makes a COD shipment by mail, rail or water instructs the Nksvyazi agency or the carrier, as the case may be, to deliver the freight to the payer only against his payment of the corresponding amount. So that the payments received by such agencies or carriers reach the supplier promptly, the procedure has been adopted of having

the payer, on learning the amount demanded of him, transfer it directly to the supplier through the postoffice. The postoffice receipt is then produced as proof of payment to obtain delivery.

The method of transfer through Nksvyazi agencies will be explained below.

The supplier may also combine a number of small accounts and draw a single bill for an amount in excess of the above mentioned minimum. Such a bill may be handled through the usual procedure of the bank.

29. PENALTIES FOR BREACH OF THE RULES FOR DOCUMENT CIRCULATION

The established rules of document circulation must be observed to assure the accuracy and timeliness of settlements, to guarantee the normal operation of the bank, and to protect the interests of buyers and sellers. Breaches of document circulation, delays and other improper practices in the effectuation of settlements are responsible for substantial damage to the Khozorgany and the bank. Such inefficient and improper functioning of the bank and the Nksvyazi also damages the economy. For this reason the NKF USSR has prescribed fines for breach of the rules of document circulation, for instance:

for delayed dispatch of the invoice-account to a payer: 100 rubles;

for drawing accounts without shipping the goods, and also for duplicate accounts [for the same goods]

5 percent of the

amount of the account; the bank is obligated to notify the public prosecutor's office of every account without

the goods;

for incorrectly filling in, on a bill, the number of the payer's clearing account, his address and the name of the bank that serves him: 100 rubles, etc.

The amounts of fines collected from clients are credited to the account No 255 "Miscellaneous income". Fines paid by the bank are entered on account No 253 "Administrative and Management expenses of the bank", and are subject to collection from the guilty employees.

20. THE APPLICATION OF THE SYSTEM OF BAILMENT OF GOODS BY THE PAYER

The bank may deprive habitual defaulters of the right to dispose of goods before paying for them. Khozorgany that fail for more than 15-25 days to pay incoming bills drawn on them, because of financial gaps, insufficiency of operating capital, operation at a loss, etc., are deemed habitual defaulters. The bailment system is established and terminated by the written disposition of the bank, and is compulsory for Khozorgany that are habitual defaulters. In such cases the payer's bank adds the phrase "Bailment applied" to the notice of lack of funds which it addresses to the supplier's bank. At least once every 15 days the bank must verify the intactness of the goods not paid for and must draw up a certificate of verification. If use of such goods is discovered, the bank sends a copy of the act of verification to the supplier's bank, recovers payment of the amount of the bill

together with a fine, and turns the matter over to the office of the public prosecutor to hold the guilty parties responsible.

31. SALE OF UNPAID GOODS

Goods for which payment has not been made are sold by the bank on the instructions of the suppliers, transmitted through their bank. Goods may be sold if they are held in trust by the payers in view of their refusal to accept the bills or in view of the bank's application of the bailment system to such payers.

If the supplier has not indicated in the instructions to sell the extent of the possibility of discount from the amount of the invoice-accounts, the bank sells the goods at prices no lower than those shown therein.

The proceeds, together with the disbursements incurred (not excluding the commission paid to the Khozorgan through which the sale is effected) are reflected by the bank in balance-sheet account No 210 "Other debtors and creditors", on the detail accounts opened for each bill on which a sale is made.

The settlements for the sale are considered completed when payment is received from the new purchaser and the goods actually delivered to him. The amounts received from the new purchasers are credited to the detail account of the supplier, while all the expenses of storage, transportation and sale are debited to it. The balance in the account (after the settlements for sale or reconsignment have been completed) is transferred through account No 262 "MFO Initiated" to the supplier's bank.

32. LETTERS OF CREDIT AND THEIR ACCOUNTING

Letters of credit are dispositions issued by the payer's bank for its client's account and directed to the supplier's bank, undertaking, under certain conditions, to pay the invoice-accounts of the supplier.

Under the letter of credit method of settlement, payments are made by clearing transactions at the place where the supplier's clearing account is kept. A letter of credit is used for settlements only with a single supplier.

In some cases, such as, for example, for settlements between builders and enterprises of the NKies, the letter of credit form is prescribed by special decrees of the government.

In other cases the credit form is provided for by the contract between the parties. It is especially employed when the purchaser, through its representative, takes qualitative delivery of the goods at the supplier's domicile. It is also used for isolated transactions where there are no permanent relations between the buyers and suppliers. Finally, it is also used as a sanction against habitual defaulters: if the purchaser has repeatedly held up the payment of bills drawn against him under the acceptance system of settlements, the supplier may by way of sanction substitute the letter of credit system of settlements for the acceptance system.

The letter of credit system of settlements is not widely employed. The reason for this is that, while it gives the supplier

certain advantages (certainty of payment and acceleration of its receipt), it limits the purchaser's ability to check the supplier's fulfillment of its contractual obligations. Such a check can be made only through authorized representative of the payer, but they are far from being available at the domicile of every supplier. In places where the purchaser is unrepresented, the entire control reduces down to verification by the bank of the conformity of the documents presented for payment with the terms of the credit. In addition the use of the credit involves a certain immobilization of the payer's resources. This system of settlements should, nevertheless, enjoy wider acceptance than it does, for it excludes the possibility of debtor-creditor relationships [between firms] originating.

The bank should carefully follow up the compliance with the terms of the credit and not allow the slightest deviation from them.

The bank opens credits under the condition that all amounts involved are covered by funds specially deposited for this purpose in the bank by the client. These funds may be drawn from the clearing or current account of the client, or may be made available to him in the form of a bank loan. To avoid the harmful immobilization of funds deposited to cover the credit, and to allow the bank that serves the payer to keep currently oriented as to the use made of the credit, the following procedure has been established: The funds for the credit remain in the payer's bank, but on the special liability account No 236 "Letters of credit issued" from which the payments made to the suppliers bank are

covered. The suppliers bank, in using the credits, makes payments for the account of the payors bank, and settles with it through MFO. Both banks comply with the time limit of the credit.

Orders opening credits are transmitted to the suppliers bank by mail or by telegraph.

A credit may not be opened for less than 1000 rubles, except for those opened for kolkhozes. Payments on letters of credit pursuant to their terms, may be made in parts, but not less than 1000 rubles for each transaction. For the goods listed on pages 99-100, this minimum payment is reduced to 250 rubles. The minimum payment from kolkhoz credits is 50 rubles. The invoice accounts, against which payment is made, ^{may,} under the terms of the credit, either require acceptance by the authorized representatives of the payors or not require acceptance. In the latter case the payer may issue certain supplementary instructions, requiring that payment be made only against documents after shipment at designated stations, that certificates of inspections for quality be annexed to the invoice-accounts, or forbidding part payments on account of the credit. The time limit of a letter of credit is 25 days, not counting the time of postal transit; and in individual cases it may be extended up to 45 days by a bank. When its time limit has expired, a credit is closed. Its unused balance goes to extinguish the debt on the loan under which it was issued, and if there has been no loan for this purpose, it is restored to the clearing account from which the amount of the credit was drawn.

The necessary requisites of a letter of credit are: amount:

method of paying the invoice accounts (on acceptance of an authorized representative of the purchaser, or without such acceptance); name of the supplier; general designation of the goods for which invoice accounts will be drawn by the supplier; and time limit of the credit.

The issue of a letter of credit by the payer's bank is formalized by an application. For a mail credit it is in quintuplicate, while for a telegraphic credit it is in triplicate.

The first copy of the application for a mail letter of credit -- the application itself -- remains in the payer's bank as a posting memo to credit the amount of the letter of credit to account No 236. "Letters of Credit Issued".

The second copy -- the letter of credit itself -- after it has been formalized by the signatures of the bank, the transfer code word or the heraldic seal, is forwarded to the suppliers bank, where it serves as the basis for effecting operations and entries on the non-balance-sheet account No 471 "credits for payment".

The third copy -- the notification to the supplier -- is sent to the supplier's bank together with the second copy, and thence goes to the supplier.

The fourth copy is used by the payer's bank to keep track of the time limit of the credit and for keeping the detail account; this copy can be successfully substituted for the form of the detail account sheet.

The fifth copy -- the receipt -- is signed by the bank and returned to the payer as a confirmation of the acceptance of its application for the credit.

For a telegraphic credit, the first copy serves as a posting memo. The second copy is used for the detail account. On the back a copy of the coded credit telegram is stamped. The third copy is used as a receipt and delivered to the client. We present the form of the application for a credit on page 134 [form 18], and the general scheme of document circulation on page 135 [Figure 9].

After checking the requisites of the applications for the credit, the authorization and authenticity of the signatures and seals of the client, and the existence of sufficient funds to meet the application, the payer's bank draws the following account distribution: debit the balance-sheet account and the detail clearing account of the client, credit account No 236; and opens a detail account for each credit issued. If the bank grants a loan for this credit, then the loan balance-sheet-account and the detail loan account of the client are debited, while the same account No 236 is credited. For telegraphic credits, the clearing account of the client is also debited for the telegraph charges. All letters of credit issued are registered in order in the journal of the letter of credit issued. The serial number under which each credit is entered in this journal is shown on the letter of credit itself in the form of the numerator of a fraction. The detail accounts for the credits issued are arranged according to dates.

The supplier's bank registers the incoming credits, after

checking the accuracy of their form and requisites, in the journal of letters of credits payable and places on them the serial numbers under which they have been entered in this journal -- No 21, in our example. At the end of the day an additional posting memo for non-balance-sheet account No 471 "Letters of credit payable", is drawn for the sum total of the journal at the end of the day. For each letter of credit a detail account is kept, as well as a tickler card for keeping track of the expiration date. The back of the letter of credit is usually used for the account, while the tickler card is replaced by a previously prepared by a previously prepared notice (without the amount) that the credit has been closed.

The third copy of the application for a mail credit is sent to the supplier. In the case of a telegraphic credit, a copy of the credit telegram is also sent to the supplier if it was not already sent him by the payer's bank.

Payment on account of the letter of credit are made on presentation by the supplier of documents in complete conformity to the terms of the credit. In order to make sure that the supplier's settlement documents really represent goods in transit; the bank under all circumstances requires the presentation of shipping documents or, in the case of truck shipments, of certificates [acts] of acceptance and delivery. The bank initials these documents so they cannot be presented a second time, and returns them to the supplier. The bank may also verify the paid documents by a check at the premises of the supplier. The invoice accounts which are payable out of the credit are presented with a list

Form No 18

Office Oblast(Regional)Office
of State Bank Branch

MAIL LETTER OF CREDIT NO 21/14
of the bank

Expiration date
of letter of credit
26 February 1945

26 January 1945
(date)

In the city of Voronezh

On the introductions and for the account of Voronezh Gorprom

YOU WILL PLEASE OPEN A CREDIT

To the State Bank
in the city of Tbilisi

For Six Thousand Rubles

For Settlements with Chaysbyt
(Name and address of supplier)

On the following conditions: (1) Payment against accepted Invoice account

(2) With acceptance (by Whom), Without acceptance of Stepan Fedorovich Il'in

19
(Date received by supplier's bank)

(3) Kind of goods Tea

AMOUNT

Serial No

(4) Station of origin: Tbilisi

(5) Station of Destination: Voronezh

Debit us through MFO for sum paid out hereunder, attaching to your debit av-
vice the paid invoice-accounts and a copy of the list

19
Charge-in to non-balance-sheet a/c No 471

TOTAL 6,000

Operations Clerk
Controller

(Stamp of purchaser's branch) Voronezh Oblast Regional
with its MFO clearing number Office MFO Clearing number
11101
(Signatures) (two)

Transfer
code-word

Code-word
checked by

Figure 9 (cont'd)

- I. Acceptance of application for letter of Credit
- II. Dispatch of the 2nd and 3rd copy to supplier's bank.
- III. Opening account No 471
- IV. Dispatch of Notice to supplier.
- V. Presentation of documents for payment with the letter of credit
- VI. Entry of payment for credit and charge out from account No 471
- VII. Dispatch of debit advice to bank of person requesting opening of credit (which has been omitted from the scheme to make it easier).
- VIII. Entry of payments under the credit
- IX. Dispatch of documents to the persons at whose request the credit was opened.

in quadruplicate, of the form shown on page 136. The invoice accounts payable on letters of credit for capital construction are presented in two copies, one of which remains with the bank making the payment. After all documents have been checked, the fourth copy of the list is returned to the supplier as a receipt. Payment on account of the credit involved are noted on all copies of the list. The first of them is used as a posting memo to debit the account "MFO initiated" and to credit the balance-sheet-account and the detail account of the supplier (if necessary also its trust or Glavka and the state income accounts). From the same copy, the amount paid out is entered on the outgoing side of the non-balance-sheet detail account for the credit involved. The balance of the credit is shown on the first and third copies of the list, and if it falls below 1000 rubles (or 250 rubles for some goods), then the credit is closed at once.

The MFO debit advice is drawn from the third copy of the list, and is sent to the payor's bank together with that copy and the invoice account.

The second copy of the list is sent to the supplier with the next statement of his account. This copy can be entirely dispensed with.

At the end of the day posting order to reduce account No 471 "Letters of Credit Payable", is drawn in the aggregate sum of all payments made during the day on letters of credit.

The supplier's bank must be sure to comply exactly with the terms and period of the credit, knowing that any improper

or delayed payment may be repudiated by the payer.

The final stage of the credit operation is the reduction in the funds to the credit of the credit account in the payers bank, in accordance with the payments that have been made by the supplier's bank. This reduction is made as the MFO debit advices and the paid documents are received from the suppliers bank. On the basis of these the following entries are made: Debit account No 236 "Letters of credit issued", credit account No 264 "MFO contra".

The new balance brought down on the detail account for the credit must necessarily check against the balance shown by the supplier's bank on the list. This is a very important factor in the control, for account No 236, in essence, is completely duplicated by non-balance-sheet account No 471, kept in the supplier's bank, and there must be complete identity between them. The list and invoice-accounts attached to the debit advice are forwarded to the client for whose account the credit was opened.

On the next morning after the time limit of the credit has expired, the supplier's bank closes the credit, i.e., it reduces account No 471, and the corresponding detail account by the amount of the balance of such credit. The payer's bank is advised of the closing. This bank, on receiving the advice (or five days after expiration of the time limit of the credit plus the mail transit time), closes the credit on its books by the entry: Debit account No 236; credit "clearing account of payer" or credit "loan account of payer", if a loan was made to

Form No 19

On Letter of Credit No 21/14

"Chayseyt
(Name of supplier)

Of Voronezh Gorprom
(Name of Payer)

Georgian k/o of State Bank

Type of
Operation

Bank Notations
The list and the Invoice accounts have
been checked and conform to the condi-
tions of the letter of credit and to the
shipping documents
(Signature)

Date 12 February 1945

In presenting for payment the 2
Invoice-accounts below enumerated,
please debit the payer's account
in the establishment of the State
Bank that issued the letter of
credit, and credit per the present list (a) our clearing

LIST NO

DEBIT A/C No 263

PAYMENT AUTHORIZED
Date 2/12/1945
(Signatures)

CREDIT

55041 R 3,700

CREDIT
R

Balance of letter of credit
after payment of the in-
voice-a/c as per this list

(b) the subaccount
of our combine No p

Cosdokhodi CREDIT
No Budget Surcharges R 2,100

R. 200 -- closed

(c)

R 5,800
(in Figures)

MFO Originated Advice
No 49762

Total
of
list

Five-Thousand Eight Hundred Rubles
(in words)

L.S

Signature of supplier

(of supplier)

DEBIT entry made by State Bank
Date

Controllor Operations Clerk

Journal Clerk

255
To be filled out in quadruplicate. The destination of each
copy is indicated thereon. When more than six invoice-accounts
are presented, the schedule will be continued on the other side of
this list. The first copy remains in supplier's bank at the
letter of credit group. [department]

open the credit.

Any change in the terms of the credit, in particular any reduction in the amount, may be made by the payer only through his own bank, which accepts his application and sends the corresponding dispositions by telegraph or mail. The supplier's bank notes the disposition, reducing the credit, upon both the detail account and the tickler card, but for three days afterwards still continues to pay accounts of the supplier up to the former limit of the credit, so as to give the supplier an opportunity to collect for the shipments made before the terms of the credit were changed. When, after the lapse of three days, the supplier's bank in fact reduces the amount of the credit or changes its terms, it notifies the payer's bank of the execution of its disposition. As soon as the payer's bank has received this notice, it can restore the amount of the reduction to the payer's clearing account or apply it against the loan granted to the payer for the credit in question.

33. SPECIAL ACCOUNTS

Special accounts are opened by a payer for settlements with out-of-town suppliers at their place of business. They are mainly used at the present time for settlements of marketing organizations of heavy industry with the plants of their system. Settlements through special accounts are made at the place where the supplier's clearing account is kept. In this respect special accounts resemble letters of credit. But they also differ substantially from letters of credit: (1) A special

account is used for settlements not with a single supplier but with several, or for settlements over a long period with one supplier: (2) A special account presupposes the presence of a permanent representative of the purchaser at the place of settlement: (3) A special account is not limited as to duration, but is closed if it remain inactive for one month; (4) Cash for expenses connected with the storage and shipment of goods may be drawn from a special account, up to the limit set by its holder when opened; (5) The funds in a special account do not remain in the payer's bank, as with a letter of credit, but are transferred.

In his order for the opening of the special account, the payer indicates in what city, in what amount and for what transactions the special account is to be opened. He may also indicate the extent to which cash withdrawals are to be allowed and other supplementary conditions. The order is submitted to the bank in three copies of which one is returned to the client as a receipt on acceptance of the order by the bank. A special account may be set up from funds of the client drawn from its clearing account or by means of a loan granted by the bank. In the former case the client's clearing account is debited, while in the latter case his loan account is debited. In either case account No 263 is credited and a credit advice is drawn, which is sent together with the second copy of the order to open a special account, to the supplier's bank.

A special account is kept at the supplier's bank. When it receives, registers and checks an MFO credit advice, either mail

or telegraph, this bank makes the entries: Debit account No 264: credit account No 221 "Special accounts for goods turn-over", and opens the correspondent detail account in the payer's name.

The authorized local representative of the holder of the special account must present to the bank a power of attorney, a passport visaed in that city, and his registration with the local Finotdel. If the special account is not formalized within ten days, its amount is returned to the payer's bank. Payments out of the special account, i.e., debit entries against it, are subsequently made on documents corresponding to the character of the special account and initialled or signed by the authorized local representative of the account(holder). A special account is connected, (corresponds) with various contra accounts. Thus, when cash is paid out (on cash disbursement orders, for checks against a special account are not accepted), cash is credited. In transfers to a local supplier, its clearing account is credited. When limited check books are issued, account No 219 "limited check-books for settlements with carriers" is credited. For transfers to another city, account No 263 is credited, etc. The special account is credited with new deposits arriving from its holder in another city. There may be no other increments to a special account.

Special detail accounts are kept in duplicate on the form of the clearing account (see page 96). The copy is sent directly to the account-holder at stated intervals, and when the account is closed.

Changes in the special account, or recalls of amounts from it, are of course made through the payer's bank, which transmits the client's disposition to the supplier's bank for execution. The supplier's bank, when it receives a disposition on the reduction (recall) of a special account, if the balance in that account permits it, debits account No 221 and credits account No 263, and sends the payer's bank a mail or telegraphic credit advice. On the basis of this advice, the payer's bank debits account No 264, and credits the payer's clearing or loan account, depending on the source of the funds from which this special account was opened.

When there is an unused balance, the closing of a special account follows an analogous procedure.

34. TRANSFER OPERATIONS

A disposition of a bank establishment, issued on the instructions and for the account of a client to a bank establishment in another city to pay a certain amount to a named payee, is called a transfer.

This form of intercity settlements is used for small payments which do not involve passing invoice accounts through the bank, for furnishing turnover funds to out-of-town offices for representatives, for paying debts, claims, court judgements, arbitration awards, fines, forfeits, and for the transfer of accumulations, etc. Transfers are made by mail or by telegraph in a minimum amount of 1000 rubles except for the amount of kolkhozes, when this

minimum is reduced to 250 rubles.

The order of the client (the remitter) for the transfer is checked by the bank as to the admissibility of the transfer form in the case involved, the correct filling of the requisites of the order (amount, to what city, to whom, for what,) the agreement of the client's signature with the sample signature on file, and the existence of sufficient funds in the clients account. The order is submitted in three copies. The first is used by the bank as a basis for the bookkeeping entries, the second is sent to the bank establishment ("Bank B") to which the transfer is addressed, and the third copy is delivered to the client as a receipt for the acceptance of its order.

When it makes the transfer, the bank establishment (Bank A) charges the amount transferred to the detail clearing account of the client, and to the corresponding balance-sheet-account, and credits account No 263. An MFO credit advice is drawn out and sent to the out-of-town establishment of the bank (Bank).

For telegraphic transfer, the MFO credit telegrams are drawn in the following manner:

Transfer Report two addressees [The telegram may also be dispatched only to Bank "B" as the single addressee]

KURST BANK

ALCOHOLIC BEVERAGE TRUST

Keyword: please credit 55,020 of Alcoholic Beverage Trust

Five thousand five hundred rubles complaint by instructions SKZ

82,372

The cost of the telegram is collected from the client.

In order to prevent fraud, transfer telegrams must be checked with particular care. The accuracy of the transmitted text must be certified by a special telegraph inspector whose signature is known to the bank. The transfer code word which is contained in the telegram, likewise confirms its authenticity and accuracy.

Therefore, if the telegram is not signed by the telegraph inspector, or if the code word is wrong, then bank B has no right to complete the operation on the basis of such a defective telegram, but is obligated to clear up the defects.

Bank B enters correct credit advices as follows: Debit account No 264 and credit the clearing or current account of the payee, unless he has no account at the bank, in which case account No 214 "Unpaid transfers" is credited, and a separate detail account is opened for each payee. Receipt of the transfer is confirmed to bank A. The transfer of the amount to the clearing account of the payee thereby represents payment of the transfer. The amounts of transfers credited to account No 214, may be reduced or refunded on the disposition of bank A based on an application of the remitter. The payee is notified of transfers credited to account No 214, unless it has already been notified by a copy of the telegram. Bank B verifies the identity and authorization of the payee, and takes up the notice or the copy of the transfer telegram with a receipt for the amount of the transfer. Payment in cash is made in accordance with the existing

rules that regulate the delivery of cash. All payments are debited to account No 214.

Transfers not paid by bank B for two months, are returned to Bank A (debit account No 214; credit account No 263.)

Transfers for amounts under 1000 rubles are made by the clients through the Nksvyazi agencies. A list in triplicate of transfers to be made through such agencies (to whom, for what, at what address, amount) is submitted to the bank together with a crossed check to the Nksvyazi. The bank checks the correctness (admissibilities) of the transfers, certifies the check and returns it to the client with one copy of the list, initialled by the bank. The client uses the certified check to settle with the Nksvyazi agency that accepts the transfers from him according to the list initialled by the bank. This agency then deposits the certified check in the bank, and its amount is credited to the account of Nksvyazi (No 147).

For incoming transfers in favor of bank clients through the Nksvyazi agencies from other cities, such local agencies furnished the bank with dispositions to transfer from their accounts (balance-sheet-account No 147) to the payers' accounts of the payee, of the total amount of incoming transfers in favor of each of them; the stubs of such transfers are sent directly to the payee by the Nksvyazi agencies.

35. CITY SETTLEMENTS

Settlements between a purchaser-payer and a supplier

with clearing accounts in the same branch in different branches of the bank in the same city are called city collections. Such settlements are made in cash up to 100 rubles. The bank may increase this minimum to 500 rubles. Larger local settlements are made with crossed checks, payment orders from the payers and bills from the suppliers.

Crossed checks are presented by the supplier to the maker's bank, accompanied by a list in duplicate. If the supplier's clearing account is kept in the same establishment of the bank (as is the case in most cities, since they have only a single branch of the State Bank), then, after checking each crossed check (proper filling of the requisites, authenticity of the signatures and stamp, period of validity of the check, and sufficient funds in maker's account), the bank debits the payers' accounts and credits the total amount of the list, after it has first been checked, to the supplier's account. If this account is kept at another establishment of the bank in the same city, then, in Moscow and Leningrad, where a Clearing Department is in operation at the Chief City Offices of the State Bank, a credit is passed to account No 224 "Settlements between credit institutions in the same city", and the bank in question is instructed through the Clearing Department to credit the amount to the supplier's account. In the other cities, account No 263 is credited in such cases or during the course of the day the above mentioned account No 224 is credited, and this account is then closed out into account No 263 at the end of the day: debit account No 224; credit account No 263. The establishment of the bank where the supplier's account is kept, credits the amount by

a contra entry to its own client: Debit account No 224 or No 264; credit the supplier's clearing account.

If the crossed check is defective or the payer's account has insufficient funds to pay it, then the supplier does not receive payment for the goods sold.

This may be avoided by using a payment order from the payer for the settlement. Such an order (see the form on page 67) is presented to the bank in triplicate (For machine accounting, and also where the accounts of the parties to the settlements are kept in different city branches of the state bank, the remittance order is presented in quadruplicate.) by the payer himself. After checking it (requisites, signatures, stamp, sufficient funds in makers account) the bank transfers the necessary amount in exactly the same way as with a crossed check. The first copy of the remittance order serves as a basis (posting memo) for the transfer, the second copy is sent to the supplier or his bank with the statement of account, while on the third copy the bank notes execution of the transfer and returns it to the payer. This third copy is handed by the payer to the supplier as proof that payment has been made.

When the payer's account has no funds, the bank does not accept payment orders, except where it is shown that the goods have already been delivered (for instance "for goods received on such and such a date on account number such and such). In this case orders are accepted from the payer, or bills from the suppliers, and all copies of the payment orders are stamped "No

Funds", and are placed in the second card file belonging to account No 415. They are then paid pursuant to the legal order of priorities.

City settlements for at least 250 rubles may be made by the supplier delivering his bills for collection to the bank. Such bills are analogous to those used for the out-of-town goods turnover. It is mandatory for them to indicate when the corresponding invoice accounts are given or sent to the payer, and also, in Moscow, in Leningrad and other large cities, the account invoices must be attached. The bills are presented to the bank in duplicate (quadruplicate for bank establishments having machine accounting), with a list in which they are enumerated. This list is drawn by the supplier in two copies (one for the bank and the other for return to the supplier as a receipt), or if the supplier borrows against local bills left for collection, or if the payers' accounts are kept in a different bank, there must be three copies of the list.

The list and the bills are checked in the same way as is done for out-of-town bills (see page 108). The bank enters the payment date on each bill which is the third working day after its arrival. In contrast to out-of-town bills, local bills are recorded in account No 435 by the supplier's bank only if the supplier borrows against them. If the bank does not finance local bills for that supplier, they are not recorded in the accounting of the supplier's bank, but all copies, together with the list, are placed in the tickler card file No 1, and are shown on the additions side of account No 414.

FIGURE 10
SCHEME OF DOCUMENT CIRCULATION FOR LOCAL COLLECTIONS

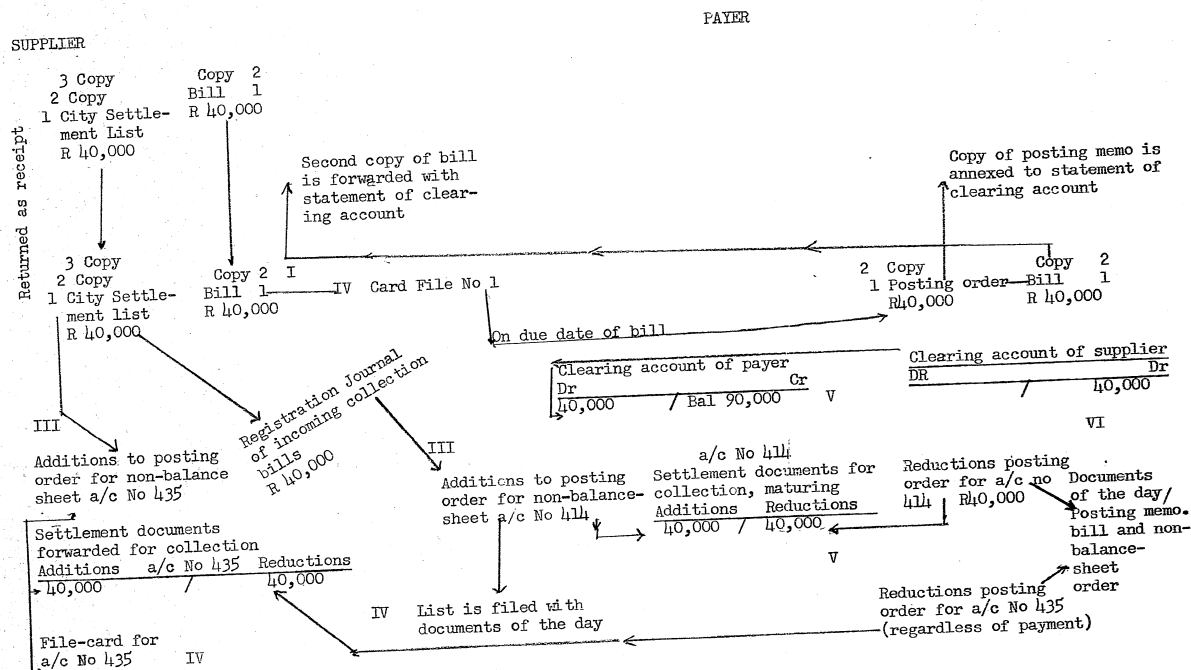


Figure 10 cont'd

EXPLANATIONS

- I. Acceptance for collection and delivery of receipt
- II. Registration and posting of copy of registration journal
- III. Accounting of incoming bills for collection.
- IV. The list. One copy is filed with the documents of the day. Another copy is filed in the card-file of account No 435. Both bills are placed in the fixed-maturity card-file No 1.
- V. Drawing of the posting memo for payment, execution thereof, drawing of the charge-out order against a/c no 414, dispatch to payer of a copy of the posting memo, charge-out from a/c No 435.
- VI. After completion of the operation and posting of the memos to the general journal, the following documents are transferred to the documents of the day: the posting memo, the bill (1st copy), and the non-balance sheet a/c posting memo.

If the payer's clearing account is kept in another bank in the same city, then one copy of the list and all copies of the bills are sent to that bank, where they are placed in card file No 1 and entered on the additions side of account No 414, while a supplementary third copy of the list, specially obtained for this purpose, are collected (without being recorded on a non-balance-sheet account) in a separate package, for reference purposes by the supplier's bank.

In cases where the supplier borrows against bills, they are registered in a special journal, on the basis of the second copy of the list, and are entered on the additions side of account No 435, schedule A, for three or four working days. (The time for acceptance and payment for deliveries to military and militarized organizations in the same city is fixed at 3 or 5 working days, while the period for exclusion from loan collateral and from account No 435 is five or seven days.)

Since the length of the period of document circulation of the local bills included in one list is the same, account No 435 is increased by the sum total of the list, which represents at the same time a note for the liquidation of the loan, and is therefore termed "lists note". After three days, if the payer's accounts are in the same establishment of the bank, or after four days if they are in a different establishment of the bank, the list-obligation is excluded from the loan collateral and is written off account No 435, regardless of whether the bills have been paid.

The payer has the right during two day (the bank may ex-

tend this period to 4 days for suburban payers) to refuse acceptance of a bill. The banks failure to receive such refusal within this period is equivalent to acceptance of the bill. Accepted bills are paid on the morning of the third working day. Bills which the payers have refused to accept are returned to the supplier. In the other details, (registration in the journal, recording in accounts No 414 and 415, and procedure for payment) the collection of local bills is in no way distinguished from that of out-of-town bills.

The scheme of document circulation for city collection is given on page 143 (figure 10).

Local bills for grain products and other goods payable without delay (see page 100) may be accepted for collection by the bank only if the parties have agreed to their payment without acceptance.

36. PLANNED PAYMENTS

Plan payments are more or less widespread. They are payments that originate from a supply plan. That part of the plan not actually effectuated is subject to recomputation, every 5, 10, or 15 days, to agree with the actual extent of the supplies. Such settlements are embodied in payment orders from the payer, and manifest no technical peculiarities. These payment orders may be presented to the bank ahead of time by the payer. In that case they are registered in the journal and entered in account No 414 "Settlement documents for collection, not yet due". When a purchaser has no funds or insufficient funds for making a plan payment, the order will be paid in order of priority, but without the assessment of a penalty for delay.

37. PECULIARITIES OF LOCAL SETTLEMENTS FOR CAPITAL CONSTRUCTIONS

City settlements for property construction have a number of peculiarities. First of all, crossed checks are not used in this case. Then, it is mandatory to attach the invoice account to the payment order, so that the prices may be checked. The invoice accounts must of course be attached in every case to bills as well. Local bills for capital construction must have the supplementary requisites and meet the supplementary requirements mentioned above in section 27. In settlements for capital work done by contractors, the memorandum of formal acceptance, by the customer, of the work done is also presented to the bank, besides the invoice accounts.

38. SETTLEMENTS WITH CERTIFIED CHECKS AND CHECKS FROM LIMITED CHECKBOOKS

Certified Checks

Settlements with the agencies of the Nksvyazi are made with certified checks. Different settlements made at the ^{same} time with the carriers may also be made by certified check, if the total amount of such payment is over 250 rubles. Small settlements, up to 50 rubles, with the carriers are made in cash.

A crossed check, on the back of which the bank has noted its acceptance i.e. has obligated itself to pay the check within period of validity, becomes a certified check. The client presents this check with an application for certification. If the

check can be paid, account distribution is made on the application; debit clearing or current account of the maker, credit account No 200 "certified checks". On the back of the check the following notation is made: "Certified for such and such an amount, for settlement with such and such a post office branch (or carrier). Number (in order of journal entry). Date of certification. (Signatures and stamp of the bank). The agencies of the Nksvyazi have sample signatures of the bank employee who sign certifications of checks for settlements with the Nksvyazi, and also an impression of its seal or stamp, and must check the signatures with the samples. The check is delivered to the client who receipts for it on the application.

A special journal is used for the analytical accounting of certified checks. One is for checks to be used for settlements with agencies of the Nksvyazi, and another for settlements with carriers.

Form No 20

JOURNAL OF CERTIFIED CHECKS

CREDIT

DEBIT

CREDIT BALANCE

Giver of check

Checks Outstanding

Date of Entry	Serial Number	Check No	Date issued	Name of maker	Clearing Account No of Maker	Amount of Certified Check	Note of Payment	Date of Payment	Serial No of Credit	Amount	As of What Date	Number	Amount	Checked by Controller
14/2	32	293411	12/2	Zozhzavod	50040	1350	-	-	-	-	14/2	3	4,290	-
											15/2	4	5,640	

The holder of a certified check (the Nksvyazi agency or the carrier) may not transfer it to another organization. When a certified check is presented for payment, it is entered, after verification in the journal for debit. Account No 220 is debited, and the account of the Nksvyazi agency or carrier is credited. If a carrier presents a check certified by an out-of-town branch, it is credited to the account of the carrier, while the account "MFO initiated" is debited. The check is forwarded with a MFO debit advice to the branch that has certified it, where it is passed to the debit of account No 220 and to the credit of account "MFO Contra".

All the checks entered in the credit side of the journal, against which there is no note of payment in column 8, must correspond in total amount with the balance of certified checks brought down in column 14 of the journal. This "inventorying" of certified checks is done every day, and then the turnovers and balances, added up for both certified check journals, are proved against balance-sheet-account No 220.

If a certified check proves to be unneeded by a Khozorgan, it presents it to the bank with an application, and the bank restores the amount of the returned unused check to the clearing account of the maker, making the following entry for this purpose: Debit account No 220, credit clearing or current account.

The habitual or frequent return of unused certified checks is a signal that the Khozorgan is resorting to the certification of checks so as to produce a temporary artificial reduction in

the balance of its clearing account, to avoid payment of claims against it. Such practices must be reported to the superior authorities of the Khozorgan, and the Regional Office of the bank asked to decide whether these Khozorgany should not be deprived of the right to use certified checks.

Twice a month the journal is examined to establish what checks have not been presented for payment ten days after issue during the preceding 18 months. The amount of such checks, pursuant to the statute of limitations, is transferred to the budget income.

Settlements with the Nksvyazi may be made by remittance orders, similar to those used in city settlements (see section 35.)

In such cases, the clients present to the Nksvyazi agencies the third copy of the remittance order with the notation of the bank that the transfer has been executed. This procedure is far simpler than settlement by certified check. The interests of the Nksvyazi are also entirely safeguarded by this simpler settlement procedure.

LIMITED CHECKBOOKS

Limited checkbooks are used for making constantly recurring settlements with carriers: railroad, water and air, and also with the highway transportation shipping office (DTK). Shipping charges, charges for loading and unloading, and the charges made on delivery or shipment of freight, may all be paid for by checks from limited checkbooks. All other settlements with carriers are

made in the usual way.

A limited checkbook is valid for three months, and each check issued is good for ten days. It may be used for settlements by the organization to which it is issued by the bank with the carriers named on the cover of the checkbook, and within the limits of the maximum thereon indicated. With a limited checkbook the bank fixes only the total amount (limit) which the bank guarantees to pay, and the amount of each check (within the limit) is fixed by the client who holds the checkbook in accordance with the payment to be made by him to the carrier. Consequently the carrier must make sure, when it accepts each check, that the limit set by the bank has not been exceeded.

We present a sample of a limiting notation made by the bank on the inside of the first page of the cover of a limited checkbook.

Form No 21

This checkbook is valid until the second
(date in words)

2 April 1945 It contains checks from
(Figures) (Month in words)

No 000001 to 000020 Inclusive

Issued To "Metallist" Plant
(Name of holder of checkbook)

on detail account No. 172101

For Settlement with the Station Moscow-Freight of October RR

To a total Maximum amount of R 50,000 Rubles Fifty Thousand
(in figures) (Amount in words)

Date 3 January 1945
(Month in words)

Heraldic
seal of
Moscow-Tag-
ansk Branch

STATE BANK USSR
Tabansk Branch
City Moscow

Sergeyev Petrov
(Bank signatures)

A detail account is opened for each limited checkbook issued to a client, and one client may have two or three checkbooks. These accounts are serially numbered. For instance, a certain establishment of the bank has 40 clients using limited checkbooks. The first checkbook is issued to the 12th client in order; and the detail account is numbered 1201; the detail account for the fourth book of the same client will be No 1204, etc., in addition, a registration card is kept for the checkbooks issued to each client.

The amount of the limits shown in the checkbook is credited to liability account No 219 "Limited checkbooks for settlements with carriers". It is covered either from the clearing account of the client or by a special loan granted by the bank for this purpose, and belonging to the category of loans on amounts in transit. In the former case the clearing accounts of the clients is debited, while in the latter case the loan account is debited. The cost of the checkbook is paid by the client in cash and is handled at the end of the day as shown in section 4.

We present on page 150 the form of a check from a limited checkbook [form 22]

A carrier agency that accepts payment by check must always require the presentation of the entire checkbook, verify the existence of a sufficient free balance of the limit to pay the check, and enter the new balance after payment of the check on the stub. In this manner the agency of the carrier checks compliance with the limit.

The checks accepted by the transport agency is deposited in the bank together with its other receipts. The bank credits the entire deposit, including the checks from limited checkbooks, to account No 130 "NKPS -- income accounts" or to the accounts of other forms of transport; the checks from books limited by the branch involved are debited to account No 219, and to the detail account of the checkbook, while the account "MFO initiated" is debited for checks from books limited by out-of-town branches. The checks themselves are sent with the debit advice to the branch concerned, which debits account No 219 and credits the account "MFO contra"

A formal statement showing the reason, is drawn up for checks on which payment is refused by the bank. One copy of the statement is sent to the finance section of the transport agency involved, another to the organization that deposited the check in its receipts, a third to the holder of the checkbook, while the fourth copy is retained by the bank.

Certified checks and checks from limited checkbooks, as we have seen, are accepted not only by the payer's bank but also by the bank of the payee, at whose disposition the amount of the check is placed immediately: There is thus a deviation here from the general rule, according to which a check is accepted only by the establishment of the bank that must pay it. This deviation is explained by the fact that limited checks are documents guaranteed by the bank, and usually encounter no difficulties in payment. On the other hand, if there should be no funds in the bank that has limited the checkbook, it then returns the

Form No 22

CHECK FROM LIMITED CHECKBOOK

CHECK FROM LIMITED CHECKBOOK

(The stub is to be filled in by the cashier of the transport organization, and the check by the representative of the Firm making the shipment)

STUB OF CHECK

THIS CHECK IS VALID FOR TEN DAYS, NOT COUNTING THE DAY OF ISSUE

Name of holder of personal account

State bank USSR

Tagansk Branch

ASHch No 000001

"Metallist" Plant

Balance of free limit
for this checkbook

(Stamp of Bank)

Rubles 50,000

- K Personal Account No 219512

Withdrawn by this
check
Rubles 3,850

51 K CROSSED CHECK for Transport ASch No 000001
For 3,850 Rubles 51 Kopeks
(in figures)

Balance of free limit
forwarded to follow-

TRANSFER To October Railroad

Rubles 46,149 49

49 K (Title of Railroad or Steamship Line)

(Amt in figures)

Rule

Three Thousand Eight Hundred Fifty
(Amount in words)

Rubles Forty Six
Thousand One Hundred

and

51 Kopeks

Forty Nine
(Amt in words)

Date, Month "4" January 1945 Place issued Moscow

Aleksandrov

(Seal and Signature of Cashier
of transport organization)

The Payment of cash against this check is forbidden

check with its MFO debit advice, and the unaccepted check is charged back to the corresponding account, i.e. it is covered at the expense of the transport revenues.

The amount of the limit must not be less than 1500 rubles for a single checkbook. The limit for the checkbook may be reinstated by the bank, but without extending the period of validity of the checkbook.

When the checkbook with the remaining checks has been returned to the bank and verified, the unused balance of the limit is returned to the clearing account of the client, or is applied against its liability on loan account, if a loan was granted to acquire the checkbook. It sometimes happens that when the limited checkbook account is closed, in view of the expiration of its period of validity plus ten days, some check or another has not yet been presented to the bank for payment, and consequently the balance of the limit shown on the detail account is higher than the balance shown by the stub of the checkbook. The amount of such an unpresented check, after verifying all checkbooks is transferred to account No 210 "Other debtors/ and creditors", in a collective detail account "Checks from limited checkbooks not presented for payment", where it remains until 18 months have elapsed, when it is transferred to the Union budget income.

The bookkeeping department of an organization that holds limited checkbooks is obligated to verify the proper use of checks periodically, noting its findings in the checkbook itself. When the bank verifies a limited checkbook, it must convince itself

that the holder fulfills this obligation. A holder who fails to comply may be deprived of the right to use limited checkbooks.

39. MUTUAL SETTLEMENTS BETWEEN KHOZORGANY BY WAY OF OFFSET

Occasional offsets

Settlements of Khozorgany between themselves are frequently offsetting. This makes their offset and mutual extinction possible. Two claims are called offsetting if, for one of them, Khozorgan A is payee and Khozorgan B is the payer, while, on the contrary, for the other claim, Khozorgan A is the payer and Khozorgan B is the payee.

Example: A trust claim 5,000 rubles from a "Snabsbyt" for products delivered by the trust, while the "Snabsbyt" claims, let us say, the same 5,000 rubles from the trust for raw materials supplied to the trust. The offset of such mutually counter claims consists in their mutual extinction without actual payment by either side.

The clearing of mutually offsetting claims may be of occasional or regular character. The bank offsets counter claims, if both of them are incontestably payable. An accepted bill of a supplier and an offsetting payment order or crossed check of the same supplier in favor of the payer may be set off against each other, or an executational court order or an arbitration award in favor of the payer or an offsetting bill of the payer against the supplier, which is subject to payment without acceptance. Offset accelerates and simplifies settlements, and

helps to reduce the amount of debt between debtor and creditors.

If the amounts of the documents to be cleared are equal, the bank marks both of them paid, and indicates on each one of them by what offsetting documents each has been extinguished. It is usually the case that one of the documents to be cleared is in the bank (a bill drawn by the supplier and accepted for collection), while the other (for instance a court execution against the supplier) is presented by the payer with an application for offset. No balance-sheet entries arise in this case, but since one of the documents to be offset, and in some cases both, have been entered on the incoming side of non-balance-sheet account No 414 "Settlement documents for collection, fixed maturity" in the payer's bank, and No 435 "Settlement documents forwarded for collection" in the supplier's bank, they must be charged out of these non-balance-sheet accounts.

The application for offset must contain all details by which the bank can precisely establish exactly what documents should be offset, and in what amount. This application is legally equivalent to payment; it must be signed in the name of the firm by persons empowered to dispose of its clearing account and the bank checks the signatures and stamp with the samples on file. It is presented to the bank in triplicate, after the offset, and one copy is placed in the special offset file, while the other two are forwarded to each of the firms between which the offset has been made.

The notation of the offset is signed by the manager of the branch or by a responsible employee of the bank who has been

given this right by a special order of the Regional Office. The offset notation is confirmed by the official seal of the State Bank.

In case of a partial liquidation by offset, the unpaid balance of the amount is charged to the clearing account of the payer, subject to the established order of priorities, if the account is kept in the bank making the offset and has sufficient funds.

Example: a bill drawn by Firm A on Firm B for 15,000 rubles is partially liquidated by an award of Gosarbitrazh in favor of firm B for 12,000 rubles, while the remaining 3,000 rubles is charged to the clearing account of B.

If the payer's clearing account is kept in a different branch, the bank returns the part-paid document to the creditor or accepts it for collection in the usual way.

An offset may also be made in the suppliers bank. If supplier C, after depositing for collection a bill for 25,000 rubles on an out-of-town payer D, receives a counter claim from D for 25,000 rubles (more or less), then he (supplier C) can recall his bill and cover (offset* the payment required from him with that bill. The entire bill may be recalled or only a part of it. The payer's bank charges out the recalled bill or the recalled part of it from account No 414. The supplier's bank, if the maturity of the document to be paid permits, makes the offset after receipt of the recalled documents or of written or telegraphic advice from the payer's bank that the order to recall or reduce the document

to be offset has been executed. In either case the bill liquidated by offset is written off on the outgoing side of account No 435 on the day of the offset, i.e. independently of the arrival of the document to be returned for offset.

If a bill is liquidated by offset after its due date, a penalty for the benefit of the supplier is imposed for the time up to the day of the offset.

Occasional Group Offset

It is possible to have an occasional offset of mutual claims between a group of firms. The circle of firms participating in such a group clearing as well as the procedure for clearing in each separate case is established by the bank and agreed to by the firms. In such a group clearing, a detail account is opened under balance sheet account No 210 for each member. These accounts are opened on the day of the clearing and closed at the end of that day. All claims of a firm against each other participate in the clearing (credit of the account) are concentrated in this detail account, and then the final balance in its favor, or to be paid by it, is ascertained.

If the balance is in favor of the firm its detail account under balance-sheet-account No 210 must necessarily be closed at the end of the day by a debit to account No 210 and a credit to the balance-sheet account and the detail clearing account of the firm. A debit balance on the detail accounts of a member must under all circumstances be charged at the end of the same day

either to its clearing account, if there are sufficient funds, or to its loan account, if a short term loan for a few days is granted by the bank to liquidate any debit balance in group clearing.

Group clearing allows carrying out a whole series of mutually intertwining settlements and, by means of relatively small loans by the bank to members without funds, to liquidate debtor-creditor accounts in very substantial amounts. The bank therefore expands this form of settlement. The effect of group clearance is very significant since the card file No 2 of such clearing, the members are liquidated or sharply reduced at a single stroke.

We give an example of group clearings: (1) A owes B 100,000 rubles (2) B owes A 30,000 rubles (3) B owes C 80,000 rubles (4) C owes B 20,000 rubles (5) C owes D 120,000 rubles (6) D owes C 10,000 rubles and (7) D owes A 40,000 rubles. The sum total of these seven settlement interrelations is 400,000 rubles. When we open detail accounts under balance-sheet-account NO 210 for each member and enter the above enumerated sums in them, we obtain the following picture:

Dr.	210	"A"	Cr	Dr.	210	"B"	Cr
	1/100	2/30			2/30	1/100	
		7/40			3/80	4/20	
		Balance Dr 30				Balance Cr 10	

Dr	210	"C"	CR	Dr	210	"D"	Cr
4/20		3/80		6/10		5/120	
5/120		6/10		7/40			
Balance Dr. 50				Balance Cr 70			

The Head Office of the State Bank informs the bank establishments by telegraph of the participants in the clearing, the date on which it will take place, the time for transfer of balances in inter-markomat clearings or of dispatch of the list in intra-narkomat clearings, to what establishment of the State Bank the balances must be transferred or list forwarded, and the other conditions.

On the day before the day of the clearing, together with a representative of the participants and payers, the bills and other settlements documents subject to clearing are picked out of card file No 2. Lists according to payers are made up in triplicate of the documents selected. The documents for one payer are arranged according to suppliers, so that the third copy of the list can be divided according to suppliers and each of them may be sent the part that relates to him. A penalty is imposed for delaying payment after the day of clearing.

The documents selected for clearing are charged out of account No 415.

In Inter-narkomat clearings, a special detail account is opened for each member, under the corresponding account of group VII of the balance-sheet. The amounts payable by the member are debited to this account, while the amounts due to it are credited to the account. The balance of the account is transferred through MFO to its destination within the prescribed period. A demand note for any debit balance is taken from each client whose detail accounts show such a balance. When a limit

notice has been received from the center conducting the clearing, a new time note is drawn and is substituted for the demand note.

The supplier's bank charges the cleared documents out of account No 435 under the usual procedure, on receipt of the MFO credit advice for inter-narkomat clearings, or of the returned second copies of the collection documents for intra-narkomat clearings.

Special detail accounts are not opened for the members of intra-narkomat clearings in the local bank branches, but only lists of the cleared documents are drawn up there; notation of the clearing is made on these lists; and they are charged out of account No 415 in the payer's bank and No 435 in the suppliers bank respectively.

Periodic Settlements of Balances

If there are continuous offsetting interrelations between two firms, they may agree by contract, with the bank's consent, to have periodic settlements of the balance, every 5, 10 or 15 days. The firms open special accounts on their balance sheet for each other, entitled "Mutual offsetting periodic settlements of balance," and each time they make shipments of goods or perform services for each other do not present bills for collection to each other through the bank, but instead, enter the price of such goods and services in these accounts. The firm that is presumably the supplier for the larger amount is obligated to keep an account of the mutual settlements and to balance this account at the periods prescribed by the contract, sending the other party a copy of the account.

Example: Metallosnabsbyt periodically settles on balance with Metallozavod, which is obligated to keep the account of the mutual settlements. During the 10 day period Metallosnabsbyt delivered goods and materials to the plant for 100,000 rubles, and received 120,000 rubles worth of products from the plant. The plant, closing out the account of mutual settlements with a balance of 20,000 rubles in its favor, sends a copy of the account to Metallosnabsbyt, and attaches a second copy to an ordinary bill turned over to its bank for collection. Unless Metallosnabsbyt sends the bank that keeps its clearing account a complete or partial refusal to accept this bill, the bank will pay it at the end of the established 3-day period, by debiting the clearing account of Metallosnabsbyt and crediting the clearing account of Metallozavod or the account "MFO initiated", if Metallozavod is located in another city. Let us further assume that during the next 10 day period there is a balance of 12,000 rubles in favor of Metallozavod. In this case Metallozavod will give its bank a payment order to transfer 12,000 rubles to Metallosnabsbyt, or to send a telegraphic transfer for this amount, if it is located in another city.

The bank must make sure that the account of the mutually offsetting settlements on balance was closed out at the time provided by contract, and that the parties have observed the contract.

With this form of settlements, the bank retains only general supervision and control over the settlements of the firms, and is released from immediate participation in the settlements

for each separate transaction.

The Bureau of Mutual Settlements (BVR)

The maximum effect is obtained from clearings in the so-called bureau of mutual settlements (BVR). The purpose of the BVR is to carry out clearing settlements between firms which are linked by continuous offsetting relations or by relations that interlace in a definite sequence. Both local and out-of-town organizations in constant contact with each other may become members of BVR, whether they belong to a single branch or to different branches. There are permanent and systematic interrelations between the members of BVR, which make possible systematic settlements by means of the addition, comparison and clearing of offsetting claims, with payment only of the balance not covered by the clearing. In some BVR, there are daily clearings, and in others every 3 days (but not less often). Compliance with two conditions is important: First, that the members of BVR settle with each other only through it, and, secondly that they be in a position to cover each balance against them, since otherwise the settlements would be incomplete and the creditors claims of some members would remain unsatisfied together with unliquidated indebtedness of other members.

The first condition is attained by having the BVR members send their claims against other members of the same BVR directly to the bureau, instead of through the usual procedure (for collection). Not only bills for goods and services are sent to the BVR, but also various other incontestable claims (executions,

etc.) as well as claims by reason of admitted complaints. The payers retain the right to refuse acceptance, but the time for such refusal may be shortened in the various BVP to accelerate settlements.

The second condition is attained by the bank's granting a settlement credit for 10 days to any member lacking funds to pay a balance due from it.

Thanks to the BVR, the settlements of its members are accelerated and simplified, and the need for working capital is reduced as a result of the exceedingly wide use of the clearing form of payment, in which cash is not used, while the debtor and creditor indebtedness of firms is reduced.

The BVR are organized by the State Bank at its Regional Offices or branches: The bank furnishes the operative management for the work of the BVR, and also handles the formalization and accounting of its operations. The State Bank determines the membership of the BVR and furnishes it with the necessary funds on account of its estimates and establishments.

The BVR processes and verifies the payment documents that come to it from its members and follows up their timely payment. It keeps detail accounts in duplicate for each member, to which it debits the amounts payable by that member and credits the amounts receivable by it from other members. After verifying the clearing made for a definite period, and the balance resulting for each member, the BVR draws up a clearing sheet in duplicate, and sends one copy of it, together with the necessary documents, (posting

7

memos, MFO advices, documents for settlements through the clearing department), to the Operations Department of the branch of the bank at which that BVR is organized, to execute the settlements with its members. On the basis of the BVR clearing sheet, the bank debits the clearing accounts of those members for whom the sheet shows a balance to be payable (in the example given below, the accounts Khlebozavod No 1, the Rosglavkonditer, etc.), and credits the BVR account under balance-sheet-account No 210.

Simultaneously the bank debits the BVR account and credits the clearing accounts of those members that have balances to receive, according to the clearing sheet (in our example, the accounts of the selling base of Zagotzerna, etc.) Instead of crediting the account of the out-of-town member, the account "MFO initiated" is credited instead. It is obvious that the detail account of the BVR will be balanced, and that in this manner the debtors will pay BVR, while the creditors will receive from it, thereby completing the settlement.

If there are no funds in the clearing account of a member, the bank grants it a settlement credit and debits its loan account.

The settlements of members with organizations outside the BVR pass through the bank under the usual procedure.

Invoice accounts are presented to the BVR in a single copy stamped "settlement through BVR" with a list for each payment-date. This stamp is placed on all documents passing through the BVR. The supplier is obligated to show on the invoice accounts

the date when the accounts were handed or sent to the payer. After payment, the list remains with the other documents of the day of the BVR. The documents are stamped "Settlement made through BVR". The invoice account is sent to the payer with his next statement. The telegraphic notice of refusal to accept are sent in the name of the BVR only to the supplier, but not to his bank. Out-of-town payers send their refusals to accept at the same time to both BVR and supplier. The BVR notifies both supplier and payer if it rejects this refusal to accept, and carries out the clearing in accordance with the bill. In case of complete refusal to accept, the invoice-account is returned at once to the supplier while the list with a corresponding notation and the statement as to refusal is placed in a separate file. Remittance orders are presented to the BVR in duplicate.

For illustration we present on page 158 an example of a clearing sheet [form 23]

40. THE FINANCING OF CAPITAL REPAIRS

Timely repair is of immense significance for the maintenance of the valuable equipment of socialist industry, which is the last word in technology.

Assignments for capital repair are made to enterprises over and above the amounts of the capital investment credits set up for them, while the funds for capital repairs are kept in special accounts in the State Bank, which are reflected in balance-sheet-accounts for capital repairs. A part of the charges for

depreciation is placed at the disposition of the enterprise in this special account of the enterprise at the State Bank, and is earmarked for exclusive use for capital repairs of its fixed resources.

The bank takes care to have the deductions for depreciation paid every 10 days into the special account for capital repairs. The bank that keeps the first clearing account makes transfers to its capital repair account on the order of the firm. These orders are executed immediately after the claims of the state budget are met. Every month the firms present to the bank their certificates and settlements on accrued and deposited depreciation. The bank has the right of its own motion to transfer to account No 167 the amount of depreciation deduction for capital repairs that have been accrued but not deposited by the firm.

The bank controls the use for their intended purpose of the funds disbursed from the special accounts for capital repair. The financial control over the funds so disbursed is analogous to that by which the Spetabanki control the proper use of funds for construction. Specifically, certificates on the confirmation of the capital repair plans and the financial estimate settlements are presented to the bank, which also verifies the prices for building materials and the agreement of the payment with the work actually completed. The following types of expenditures for capital repair are paid through the special account at the bank: Payments for building material, services, accounts for operative activities for materials turned out of services

Form No 23

BUREAU OF MUTUAL SETTLEMENTS
AT THE VERONEZH OBLAST REGIONAL
OFFICE OF THE STATE BANK

CLEARING SHEET FOR 7-10 FEBRUARY 1945

Names of Members	Bank Branch Serving Member	Number of Member's Clearing Account	T U R N O V E R S		Balances		Carried
			Debit	Credit	FWD to 12/2 Debit (to pay)	Credit (to rec)	
1. Selling Base of Zagotzerna		70010	4,150	383,850	-		379,700
2. Confectionery Factory		55033	12,125	142,850	-		130,725
3. Khlebozav, No 1		55055	152,500	96,700	55,800	-	
4. Base of Rosglavkonditer		55089	142,850	48,500	94,350	-	
5. Base of Glavrazzhirmaslo		55013	192,200	110,000	82,200	-	
6. Voronezh Khirkombimat		55014	260,000	192,200	67,800	-	
7. Base of Soyuzoptbakal'		60028	126,675	120,000	6,675-		
8. Oblpishchetorg	Usman'sk Branch	60002	47,400	49,900	-		1,600
9. Macaronix Factory	Voroneszh Regional Office	55099	62,300	2,300	60,000	-	
10. Gorpishchetorg	Same	60058	150,000	4,800	145,200	-	
			1,150,200	1,150,200	512,025		512,025

rendered for construction, delivery of funds for wages, contract advances to contractors and letters of credit opened in other cities to pay for material and equipment parts to be purchased there.

The bills and other documents presented for payment from a special account for capital repair must have the supplementary requisites prescribed for documents on which settlements for capital construction are made.

The bank may grant the enterprise a short term loan to the end of the year to cover the seasonal l.g between the expenditures for capital repair and the arrival of new funds in the special account for capital repair.

Besides the current control for financing purposes, the bank also periodically checks the proper receipt and use of funds for capital repair by auditing the documents and balance sheets at the firm's place of business. If it discovers that working capital is being used for capital repairs, or finds mismanagement, inflation of prices or other violations of financial discipline, the bank may discontinue its financing of capital repairs, and advise the firm's higher-level agency of this action within ten days.

The final decision, on the merits, about further financing, must be made by the higher-level agency.

41 SETTLEMENT SERVICE FOR NKPS

Taking into consideration the specific conditions of the transport economy, the bank organizes a specialized service for transport. First of all the bank assures the most rapid collection of the transportation receipts, and the most rapid forwarding of these receipts to the centers that dispose of them. Moreover the bank only pays out to the transport agencies such sums as their superior agencies may pay them, depending on the work done, or may assign to them according to estimate, and strictly checks compliance with estimate and budget discipline. In connection with this, the receipts of transportation are concentrated in a single account, while the disbursements are made from other accounts, strictly within the limits of their respective balances. Finally the bank furnishes credit to the transport agencies for those seasonal requirements which cannot be satisfied by their own working capital.

All railroad stations and agencies of other forms of transport are obligated to deposit their receipts in cash and checks daily in the bank.

Stations may be permitted, if authorized by the railroad management, to retain a certain portion of their receipts for the following purposes:

To settle claims of clients involving freight charges of less than 1,000 rubles, and to pay for occasional labor engaged to liquidate or prevent natural calamities. The receipts of the stations are sent to definite points along the line of the railroad, where they are deposited in the bank, and after verifica-

tions and acceptance are debited to cash account and credited to account No 130 "NKPS -- income accounts". Under this balance-sheet account at the branches of the bank to which the receipts are forwarded, a subordinate income-account of NKPS, for the railroad management involved, is opened -- for instance, for the management of the Kurst railroad. The branches of the bank have no right to make any charges whatever against this account for any documents, not even on a court order. Three times a month, on the 9th, 19th, and 28th, the branches of the bank telegraphically transfer the balances of the subsidiary income accounts -- omitting the kopeks -- to the branch of the bank where the account of the management of that railroad is kept. For instance, branch A takes in the receipts of the following lines: Kazan' railroad, of which the management is at Moscow, and its account in the Moscow Oblast Regional office of the State Bank: And the Kursk railroad of which the management is also located at Moscow, and its account at the Moscow-Krasnogvardiysk branch. On the above mentioned dates, branch A telegraphically transfers the amounts accumulated to the Moscow Oblast Regional Office and the Moscow-Krasnogvardiysk branch respectively.

Thus, through the subsidiary income accounts distributed among the branches of the bank, the receipts are gathered together in the branches that serve the managements of the railroads. Here likewise they are credited to balance-sheet-account No 130 and to the personal account of NKPS income for the management of the railroad concerned. The branches that make the above mentioned transfer reflect it by a debit to account No 130, and a credit to account "MFO initiated", and for this reason the

branch serving the management of the railroad involved makes the contra entries when it receives the transfer: Debit account "MFO Contra", credit account No 130. By disposition of the collections control department of the railroad administration, a part of the receipts may be transferred to the local income-account of the railroad. The remainder of the receipts belong to the NKPS, and therefore is transferred by telegraph three times a month, on the 1st, 11th, and 21st, to the centralized income-account of the NKPS in Moscow, at the Operations Headquarters of the Head Office of the State Bank.

The railroads make their settlements with contractors through their clearing accounts, which are reflected in balance-sheet-account No 115 "NKPS enterprises-clearing accounts". The clearing accounts of the railroad administrations and of its separate khozraschet units, each of which has its own working capital and independent balance sheet, are concentrated in account No 115. Such units for instance are the building operation material department, the locomotive service etc. Account No 115 also includes "Clearing account of the railroad administration for local income", on which, by order of the collections control department, that part of the receipts of the time in question which is allocable to local income is credited- for instance, collections for telegraph and telephone service, or rent of warehouses. For this account, the railroad pays claims against it or reimburses itself for such payments made and executes transfers for expenses to the administration of the railroad. The basic purpose of this account is consequently to

serve as a source for payments connected with the railroad operation. With the authorization of NKPS, the free balance of the account may be placed completely at the disposition of the railroad on its clearing account.

Most inter-railroad settlements for mutual services are made through the BVR.

The stations (stationmasters) have current accounts at the bank (under balance-sheet account No 115). These accounts record the amounts received from the railroad administration, and the direct income of the station (platform-tickets, charges for use of the storage rooms, etc.)

Settlements of the railroad for repairs to their locomotives and other rolling stock are made through special loan accounts opened at the respective domiciles of the payers. At the beginning of the month the indebtedness accumulated on these accounts is transferred to the State Bank establishment that serves the administration of the road in question (through a special transit loan account), and from there to the Operations Headquarters (OPERU) at the Head Office in Moscow. NKPC keeps two deposits at this headquarters to secure the liquidation of the indebtedness so transferred. Payments for demurrage of cars, for underloading and overloading, as well as for freight in direct [without transshipment] mixed rail-water routings, is made on bills drawn by the transport agencies, and do not require acceptance, the shippers are allowed to settle with the carriers under a centralized procedure for export and mixed railway freight charges. For this purpose the shipper must open a special account (under balance-sheet account

No 221* with the bank serving the railroad administration of steamship line, whose invoice-accounts are then paid, without acceptance, out of that special account. Such special accounts may be used for even local settlements.

42. SETTLEMENT SERVICE FOR NSKVYAZI

Each agency of the Nksvyazi that is financed under the estimate procedure, receives a limit advice from the agency immediately superior to it, setting forth the monthly income and disbursement plans. The bank supplies the communications agency the monthly amount of expenses required by it pursuant to the limit advice. For this purpose a clearing account is opened for it under balance-sheet account No 140 "Narkomsvyazi -- operating expense accounts", to which the amount of the limit notice is transferred on the 1st of each month. Assume that the Rayon office of Posts and Telegraphs is assigned a monthly expense account of 15,000 rubles, which is also stated in the limit notice. On the first of the month the bank makes the entry: debit account No 146 "Nksvyazi -- operating income account" and the detail account No 0 (income) of the Rayon Communications Office; credit account No 140 "Nksvyazi -- operating expense accounts" and expense account No 1 of the same Communications Office. Under the usual procedure that Office will receive funds for its expenses from that account. All its receipts must be deposited daily in the bank, which despite the amount of such deposits to cash and credits accounts No 146 "Nksvyazi -- operating income accounts" by the above mentioned detail account No 0. The income of the communications office thus gradually accumulates to the credit of

detail account No 0. On the first of the following month the credit side of that account may be either greater or smaller than the debit side (and the account is thus alternatively resource and liability).

The balance in this account on the first of the month is transferred by telegraph, in even rubles, through MFO to the corresponding account of the immediately superior organ of Nksvyazi, and all these amounts will finally be gathered (in even thousands of rubles, by telegraph, on the first of each month) into the corresponding account No 0 in Moscow, at the Operations Headquarters of the Head Office of the State Bank.

The working capital of khozaschet organs of the Nksvyazi is recorded on account No 141 "Nksvyazi Enterprises -- clearing accounts", and on personal account No 1 of the khozaschet communications agency in question, which is an ordinary clearing account.

The Nksvyazi carries out a transfer operation by which certain sums are either accumulated at different points or withdrawn from different points to pay incoming transfer calls. The funds so accumulated by local Nksvyazi agencies are kept separately at the bank in account No 147 "Nksvyazi for transfer operations". The State Bank also makes funds available to pay transfers to such agencies on this account, and allows a debit balance on it.

At the end of the year the balances of the account are transferred through the Oblast Regional Offices of the Bank to the Operative Headquarters of the bank in Moscow.

The bank periodically checks, at the premises of the Nksvyazi agencies, their compliance with the rules of cash-financial discipline, especially the deposit by them of all proceeds exceeding the limit of cash to be held for transfers etc.

43. SETTLEMENTS INVOLVING TRADE UNION AND SOCIAL INSURANCE FUNDS TRADE UNION FUNDS

The trade-union agencies sell dues stamps and dispose of certain funds for expenses of service to union members. The State Bank has the task of helping the trade-unions by supplying them with stamps, collecting the proceeds of the stamps, transferring these proceeds to the central office of the unions, and also by organizing the usual cash and settlement service for the unions.

In order to solve these problems, each branch acts as a depository of trade-union dues stamps, which are sent by Goznak. (The Goznak sends copies of its invoices to the Regional Office of the State Bank. This office then follows up the proper entry of the incoming dues stamps as additions to non-balance-sheet accounts on the books of the branches of the bank, or from other branches of the bank, and are recorded on the non-balance-sheet account No. 423 "tokens for payment of state duties and other tax imposts"; a system of accounts is used so as to assure receipt by the central offices of the trade unions of the proceeds of the dues stamps; and the usual current accounts are kept with the trade union agencies and used also by the latter to pay their expenses.

The Fabzavkomy have the usual current accounts at the establishments of the state bank. The various items of income pass to this account, as well as amounts from the trade-union

organ immediately superior, a certain percentage of the dues stamps acquired, the interest allowed by the bank, etc. A Fabzavkom buying dues stamps at an establishment of the bank, pays for them in cash or from its ordinary current account. The amounts collected for the stamps are credited to the current subaccount of the TsK of the trade union to which the Fabzavkom belongs. Consequently the entries on sale of the stamps are either: debit cash account, Credit account No. 159 "Current accounts of trade union organizations" (current subaccount of TsK of the trade union); or debit account No. 159, detail current account of the Fabzavkom; credit the same balance-sheet account per the detail current subaccount mentioned above. At the end of the day the amount of dues stamps sold is charged out of account No. 423. To enable the bank to know what Fabzavkom or Mestkom bought stamps, and for what amount, the card of the detail current subaccount of the TsK of the union is kept in columnar form, with one column assigned to each Fabzavkom or Mestkom of that union. Besides this, all debits and credits to the current subaccount are reflected in the usual certificate, legalized by the signatures and seal of a superior trade union unit (not below Oblast level), the Fabmestkom may be authorized to receive a part (20-50%) of the amounts paid by it for due stamps. If such a standard certificate is not presented to the bank, then all amounts incoming for the union involved are transferred without deduction to the Oblast Regional Office of the State Bank. The same ^{current} subaccounts by unions (broken down into Fabmestkoma) as are kept in the branches of the bank, are also

kept in the Regional Office itself for the entry of the receipts for the stamps sold and the transfer of such receipts.

Twice a month, on the 1st and 16th, there is a transfer from the current subaccounts of the TsK of the unions to the current accounts of the Fabmestkoma in accordance with the standard certificates we have mentioned. If, for instance, the corresponding column of the current subaccount shows that the Fabmestkom in question bought 3200 rubles' worth of stamps in 15 days, and according to the standard certificate, 50 percent is due to it, then the bank makes the entry: Debit account No. 159—current subaccount of the Fabmestkom in question—for 1600 rubles.

The remainder of the amounts for due stamps that have accumulated in the current subaccounts are simultaneously transferred through MFO to the Oblast or Kray Regional Offices, where transit current accounts have been opened for the same trade union TsK. The Oblast or Kray Regional Offices may have instructions from this TsK to leave or transfer such and such a percentage of the proceeds from the dues stamps at the disposition of the Obkomy of the respective unions. The balances of the transit accounts are transmitted twice a month, on the 7th and 22nd, by the Regional Offices of the bank to the establishments of the bank in which the centralized current account for dues stamps is kept by the TsK of the union in question and in which account the proceeds of dues stamps are thus collected. Finally the TsK of the trade unions place a part of the proceeds so concentrated

at the disposition of VTsSBS, while the remainder is placed in their ordinary clearing account, of which they dispose and from which they withdraw funds for the fulfillment of their respective plans. (The sale of dues stamps may also be handled by Raysberkassy, who receive an advance of stamps from the State Bank and order the State Bank, every 5 days, to charge their accounts with the amounts received by them for stamps sold. Such orders are accompanied by the first copies of the Fabmestkom applications). This entire system assures the planned distribution of the amount received for dues stamps, and makes it possible to elucidate the role of the separate rayons and oblasts in the sale of due stamps as well as the financial estimate discipline of the trade union organs.

SOCIAL INSURANCE FUNDS

The accumulation of social insurance funds takes place under the same procedure used for collecting trade union funds: namely through a system of current subaccounts, transit and centralized current accounts of the Strakhkassy of the union TsK. The distinction is in that the insurance premiums are not paid in cash, but are charged to the clearing accounts of the insurers on the basis of their commission-orders (special form) and that there commission-orders (second copies) are either forwarded together with copies of the current subaccounts and transit accounts to the insurance offices in the same cities where such accounts are kept, or are dispatched, together with the

transfer of funds, to the higher-level (Oblast, Kray, or republic) insurance offices. Transfers are made 3 times a month from the current subaccounts, on the 1st, 11th, and 21st, from the transit to the centralized accounts, 5 times a month, on the 1st, 7th, 13th, 19th and 25th and ten times a month in Moscow, Leningrad, Khar'kov and Kiev. The bank insists that all organizations deposit their insurance premiums punctually, and refused to issue funds for wages to those that delay insurance payments. The orders of the insurance offices to charge the arrears (delayed deposits) that have accrued against insurers are incontestible and are satisfied by the bank under the compulsory procedure, immediately after wages. Social insurance arrears, however, are collected from the current accounts of Kolkhozes and promkolkhozes only under a court execution.

44. SETTLEMENTS OF GOSZAGOTOVITELI WITH SELLERS OF AGRICULTURAL PRODUCTS

The state collection organizations settle with state and cooperative sellers of agricultural products exclusively by clearing (i. e. by having the bank debit the corresponding accounts of the collection organizations and credit the clearing accounts of the sellers); with kolkhozes either in cash or by transfer to the kolkhoz accounts as the sellers desire; and in cash with kolkhoz members and individuals. Settlement is made immediately on delivery of the products, and withholding is permitted only for seed loans and consumption loans. The bank settles with the sellers on the basis of daily lists presented to it in duplicate

by the collection organization showing the receipts issued for accepted products. Once a month the establishments of the bank check the accuracy of the lists by comparing them on the spot (at the Agotpunkt) with the receipts issued on acceptance of the product. At the wish of a kolkhoz, the collection organization will issue a payment order, payable by the State Bank after verification of the authenticity of the signatures.

The amounts due to kolkhozes whose current accounts are kept in out-of-town branches of the bank, are transferred to such branches by MFO credit advises. Amounts due to kolkhozes whose current accounts are kept in the same branch, are credited to these accounts and debited to the accounts of the state collection organization.

45. EXECUTORY DOCUMENTS

A document for the involuntary collection of a certain amount from a definite payer is called an executory document. They include: court executions; court orders; arbitration awards of state (extra-departmental) and departmental arbitration boards (for instance, Tsentrosoyuz arbitration board) which have the right to enforce the execution of their awards; executory notations of a notary (for instance on matured notes); accepted bills placed with the bank for collection and not paid at maturity; orders of Finorgany for the collection of taxes and arrears; orders of insurance offices for charging of arrears; orders of Finorgany to transfer to the Spetsbanky the deposits

and payments due them, etc.

Local executory documents are presented by their holders (the creditors) to the establishment of the bank in which the clearing account of the payer is kept, so that either payment or offset on account of a counter claim against the creditor may be demanded and obtained.

Executory documents for any amounts are accepted for offset. In general, however, the bank does not accept executory documents under 500 rubles for collection. Collections for social insurance and taxes, collections in favor of kolkhozes, claims against budgetary institutions, and of individual citizens against organizations, are accepted by the bank regardless of their amount.

Each executory document must show whether it relates to basic (operating) activity or to capital investment (construction). The State Bank accepts only those executory documents that relate to the principal activity and to settlements for capital repair to be made from funds held in special accounts in the State Bank.

Executory documents against payers located in other cities are turned over by their holders for collection to the bank that serves them. The bank also accepts other documents for collection, such as, for example, dispositions of the Glavky of the industrial Narkomats on the compulsory charging of amounts of amortization and profit not deposited with the Spetsbanky, all

obligations of cooperative organizations on loans received from the adjustment fund.

The original documents for out-of-town payers are submitted to the bank with a set of collection orders in triplicate, which in their form recall the supplier's bill. A collection order must have the following requisites: Name, address, and number of the clearing account of the execution-creditor; name, address and number of clearing account of the payer, designation, number and date of the (executory) document deposited for collection, by whom and where issued, whether related to operational activity or capital investment, amount of the document and amount of interest payable. Collection orders are turned into the bank with a list in duplicate.

On each collection order the establishment of the bank that accepts it fixes the document return date which is computed by adding 14 days to twice the mail transit time. The third copy of the out-of-town order forwarded for collection is charged into account No. 435, schedule B. Incoming collection orders are registered in the usual manner at the payer's bank, and then the executory documents are placed in card file No. 2 and charged into account No. 415, "Settlement documents for collection, not paid at maturity", while other documents are placed in card file No. 1 and charged into account No. 414. Executory documents are kept by the bank until their payment, delivery to a marshal of the court, or recall by the execution creditor. If the executory document has not been paid in 10 days, the payer's bank must notify the execution creditor's bank. Paid executory

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documents are delivered to the payer with the next statement of his clearing account. In all other respects, the collection of executory documents is formalized analogously to that of supplier's bills. In the enforcement of larger amounts (200000 rubles for the USSR budget, 50000 rubles for SR budget and 10000 rubles for local budget) against budget institutions, the executory documents are presented by the execution creditors to the NKF USSR, NKFSR or the local Finorgan, as the case may be, which then, within five days give the bank a disposition in writing on the payment of the document out of the debtor's budget credit or funds.

In voluntary collections from enterprises in favor of individual citizens are only accepted by the bank from the marshals of the court, and the amounts so collected are credited to the account of the corresponding Peoples Court.

The bank must concern itself with involuntary collection from the clearing or current accounts of its clients since all funds of the client are concentrated in these accounts. If there are no funds or insufficient funds in the clearing accounts, the bank will make charges against it towards satisfaction of all claims, pursuant to the priorities of payment fixed by law.

Funds for wages have the first priority for payment. For this purpose, an amount may be earmarked on the account for five days on an application filed by the firm the day before the wages are to be paid.

Next comes the transfer of the amounts withheld from the workmen and employees on account of their subscriptions for state loans and for taxes and social insurance.

Second in order of priority are the claims of the budget for taxes, of communal departments for rent of building space, etc.

Third in order of priority, payment is made for imported goods, as well as the orders of firms or of their higher-level links and of Finorgany for the transfer of depreciation funds (and profits) to the Spetsbanki and to special accounts for capital repair. Fourth in order of priority, past-due and matured obligations on loans to the State Bank are paid. Other executory documents in card file No. 2 are paid fifth in order of priority. Bills for bread, salt, and distilled liquors are paid first among the past-due bills in card file No. 2.

Sixth in order of priority, matured bills, obligations, etc. are paid. If funds are insufficient for full payment of an executory documents of a given order of priority, it is paid in part. Such payment, together with its new balance, is noted on its back.

At the wish of the holder of executory documents, they may be returned to him or delivered to a marshal of the court. In such cases, in order to preserve the compulsory force of the document and the right to assess a late-charge, a notation is made on the document leaving the bank, showing when it was received in

the bank, how much the bank involuntarily recovered on account, and when the document left the bank.

To avoid violation of this prescribed system of priorities, a special payment document sheet is drawn up every day for all clients against whom there are executory documents in card file No. 2. In this sheet the payment documents are arranged according to priorities. A considerable part of this sheet is filled out by the collection group that handles most of the collection documents, while the remainders--columns 3, 8, 12 and 13--is filled out by the operations brigade that keeps the clients' accounts. Each sheet includes the clients of only a single operations brigade. All detail account sheets of clients listed in the payment sheet, are stamped or otherwise marked "Claims", and charges to such clearing accounts are made in the course of gradual payment of claims in the order of priority. In accordance with the balance in the clearing account the operations brigade makes payments several times a day on the documents, in order of priority, and fill out the line "Paid", on the sheet. Documents received directly by the operations brigade during the day for instance, instructions for the transfer of the depreciation fund, or orders from the social insurance authorities and Finorgany, are immediately entered by it on the sheet, and are then delivered to the collection group for filing in card file No. 2 in the unpaid amount.

We present a sample "Payment document sheet for claims of various organization and of the State Bank" (see page 169) /form 247.

46. DEPOSITS OF PHYSICAL PERSONS

In recent years the deposits of private persons, (for amounts above 3000 rubles) have expanded, while during wartime the operations connected with the deposits of military personnel were introduced.

Deposits of military personnel are accepted in military field establishments and also by those stationary establishments of the State Bank authorized to do so by the Head Office. A substantial peculiarity of this operation is the possibility of withdrawing part of the deposit, or all of it, in any establishment of the State Bank. In connection with this, the passbook (of a special form) contains controls, which allow its authenticity and correctness to be verified specifically, the name of the depositor and the amount of the deposit). Payments made on passbooks in other establishments of the State Bank must be verified with special care. Such payments are debited to account No. 269 "Payments on deposits of military personnel". (The operations on deposits of military personnel are also reflected on three other accounts, of Group XVIII of the balance sheet, namely No. 277, 377 and 271. The captions of these accounts (see Appendix) sufficiently designate their purpose), for which a special analytical journal is kept, which helps to follow up the arrival of the credit advice from the establishment of the State Bank for the account of which the payment is made. A credit advice (which really amounts to compensation) must be obtained for each payment made for the account of another State

FORM 24 (P. 169)

State Bank USSR

K/O

PAYMENT DOCUMENT SHEET
By Claims of Various Organizations and of
The State Bank

For February 17 1945

Name of clients (payers)	Clearing Account No.	Application for payment of urgent expenses	Applications for wages	Other claims prior to budget	Claims of foreign and firms' instructions to transfer to budget	Amortization payments and other items payable before indebtedness to State Bank	Past-due interest and loans and fixed-maturity loans owing to State Bank	Other payments on card-file No. 2	Fixed-maturity bills from card-file No. 1	Documents payable after card-file No. 1	Total claims	Balance of clearing account	Amount of applications to collection group for payment of documents
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Furniture factory	85022	500	3200	400	1800	1600	-	4300	2800	-	14600	3300/1/	9500
Paid		500/2/	3200	400/2/	1800/2/	1600/2/	-	2000/2/	-	-	9500	-	-
Paper factory	89024	1400	-	-	5000	3000	12000	12000	14000	-	47400	-	43400
Paid					5000/2/	3000/2/	12000/2/	12000/2/	14400/2/	-	43400	-	-

/1/ Balance earmarked for wages

/2/ Payment made from amounts incoming on February 17.

Bank establishment.

An account may be transferred by military personnel to another State Bank establishment, which in this case debits the amount of the deposit so transferred to account No. 369 "Settlements for deposit accounts transferred by military personnel" and obtains a credit advice from the State Bank establishment that originally accepted the deposit.

A personal account is kept for each deposit. These personal accounts are reflected in the balance sheet on account No. 161 "Other current accounts".

Deposits of private persons may be paid out only by the State Bank establishment that accepted them, or may be transferred, in whole or in part, in the usual manner, to another State Bank establishment.

Each depositor is given a passbook and a personal account opened under balance-sheet account No. 162 "Deposits of private persons".

The complete secrecy of personal deposits is guaranteed.

When each operation is carried out, interest is allowed on the balance of the deposit for the time since the last operation. The amount of the interest and its total from the first of the year are entered in special columns of the personal account sheet and the passbook. Interest is paid annually, or when the account is closed.

CHAPTER VI

LOAN OPERATIONS

1. THE FORMS OF LOANS

Bank credit is of an entirely concrete and purposeful character, having a fixed maturity and being repayable. The term of the credit is determined for each separate loan in accordance with its specific purpose.

Depending on the character of the objects to be financed by the bank, the following forms of bank loans (the substantial features and peculiarities of each form of loan are known to the participants from the course "Organization of credit and settlement", for which reason we confine ourselves here to their mere enumeration) are distinguished:

- (1) For the seasonal accumulation of material commodity values.
- (2) For expenses connected with the seasonal process of production.
- (3) Against settlement documents in transit.
- (4) For letters of credit and special accounts.
- (5) On current goods turnover.
- (6) Advances.

2. SECURITY FOR BANK LOANS

The security for loans is of great significance in granting special-purpose, fixed-maturity and repayable credit.

Most State Bank loans are made against material commodity values. The securing of loans by collateral is as a rule effected by the firms' giving the State Bank a lien on the material-commodity values financed. These values usually remain in the physical custody of the borrower in trust for the bank. The borrower certifies the existence and condition of the collateral at regular intervals to the bank. If the borrowers fail to liquidate their loans, the State Bank has the right to satisfy its claims out of the value of the collateral by turning to the proceeds realized from the pledge to liquidate past-due loans.

In State Bank practice the following three forms of pledge are distinguished: fixed pledge, pledge of revolving inventories, pledge of goods in process.

The forms of pledge depend on the character of the loan and the nature of the security. A fixed pledge secures a loan by a specific lot of material goods, which remain in the custody of the borrowing firm in trust for the bank. The borrower has no right of substitution nor of disposition of the pledged goods without the consent of the bank.

When revolving inventories are pledged, the borrower has the right to sell goods pledged, without requiring the bank's permission, and substitute other goods for them. In other words, the pledged goods are in circulation. The value of the pledged goods, however, must not fall below the amount agreed with the bank, and the assortment must correspond at all times to that contractually arranged between bank and borrower.

The third form -- pledge of goods in process -- has a very close resemblance to the pledge of circulating inventories. Under this form of pledge, the borrower may use the pledged raw material, auxiliary materials and other material values in its production. A lien is created in favor of the bank on both the material commodity values in the warehouse and production lines of the borrower and on the finished and semifinished production obtained.

To create the lien, the firm, on receipt of the loan, delivers its letter of lien [instrument of pledge] to the State Bank in the forms shown below, and also on pages 174-175 [forms 27-28], accompanied by a statement on the location of the material commodity values thereby pledged (page 173) [Form 26].

Form 25 (page 172)

OBLIGATION ON PLEDGE AND STORAGE OF GOODS [LETTER OF LIEN]

The "Metallist" plant hereby delivers to the Stalinsk Regional Office of the State Bank, as security for its indebtedness under the time loan (as per application Number 12 of 25 April 1945), good under the following conditions:

(1) The pledged goods will remain in the borrower's custody in trust for the bank. The borrower is obligated to execute all dispositions of the bank with respect to the goods and has no right to make its own dispositions thereof without the specific authorization of the bank.

(2) A statement or inventory of the pledged goods, showing

the place of storage thereof, is attached to the aforesaid application of the borrower.

(3) The borrower bears the responsibility for compliance with all requirements of the law on the pledge of goods and with all rules and instructions of the bank.

The officers of the borrower will be held criminally liable for any delivery or use of the pledged goods without the authorization of the bank.

The Director of the Plant.....(signature)

The Chief Bookkeeper.....(signature)

The borrowing firm bears the material responsibility for the intactness of the material commodity values pledged to the State Bank. Violation of the law on pledges is punished under criminal law. The bank makes periodic checks of the intactness and condition of such commodities pledged to it.

Together with the letter of lien, the borrowing firm as a rule presents to the bank, time notes fixing the date for liquidation of the loan. If the loan is to be paid on several dates, a separate note is given for each instalment, showing the date and amount of the payment to be made on account.

Form 26

Approved By Tsunkhu

Decree of 5/8/1936, No 533,

Form 13

STATEMENT NO 10

On The Status, As of 25 April 1945, of the Technological Materials
 Belonging to the "Metallist" Plant, Delivered To the State Bank USSR
 In the City of Stalino as Security for a Loan

(In Thousand Rubles)

Name and Location of Warehouse	Total	Amount on the books of the firm				
		Amounts thereof unpaid			Due to failure to receive accounts (Uninvoiced Goods) Amounts	Thereof Paid
		Due to Extension	Past due Payments			
1. Warehouse No 1 Pervomayskaya, 4	3,500	420	125		1,271	1,664
Warehouse No 2 Pl. Vosstaniya, 19	8,420	492	980		-	6,948
2. In Transit	-	-	-		-	-
Total	11,920	912	1,105		1,271	8,632

The Director.(Signature)
 The Chief Bookkeeper.(Signature)

26 April 1945

Note: Statements may also be presented in another form -- 13a -- which is distinguished from the above presented by the fact that it shows separately each form of material commodity values involved, with their respective quantities, prices and values.

When it is not possible to set a date for payment, at the time a loan is granted, the note is made payable "on demand".

When loans are granted in the form of special loan accounts, which are discussed in detail below, the credit is used without making out a time note for each separate withdrawal of funds thereunder.

3. Operative and accounting treatment of the making of time loans

The State Bank opens special-purpose time-loan accounts for state enterprises and cooperative organizations that have gone over to a khozaschet basis and enjoy the right of borrowing at the State Bank.

Loan accounts are opened for clients in the State Bank establishments where their clearing accounts are kept.

To obtain a loan, a firm submits an application to the credit department of the State Bank establishment, showing the purpose and amount of the loan. A sample application is given on page 176 [Form 28]. To the application time notes in the prescribed form are annexed (see page 178) [Form 30], and the other necessary documents, form and content of which are determined by

the rules of the bank and depend on character and purpose of the loan to be granted. For instance, when a loan is granted against pledge of commodities or goods, a letter of lien and inventory of the security is attached. When a loan is granted for expenses connected with the seasonal process of production, a statement of the productive expenses, work completed, etc., is attached.

Form 27 (page 174)

TRUST RECEIPT FOR GOODS IN PROCESS

The cannery plant "Krasnaya Zarya" hereby delivers to the Buynak Branch of the State Bank, as security for its indebtedness under a certain time loan (as per application No 29 of 24 April 1945), the raw materials and semi-manufactured goods, etc., together with goods in process, under the following conditions:

1. The borrower has the right, without the specific authorization of the State Bank, to utilize the material values aforesaid (raw materials etc.) for processing in its production.

2. The following are pledged to the bank:

(a) the raw materials and semi-manufactured goods, etc., during the time they are in warehouse or in process;

(b) the finished products originating from such processing.

3. If the pledged raw materials, semi-manufactured goods, etc., in the borrowers' warehouse are sufficient to secure the

loan, the bank will release the finished production from its lien.

4. A statement (inventory) of the pledged material-commodity values, stating the place they are stored, is attached to the borrower's application. Such statements will be submitted in the future by the borrower every 10 days. If the finished production is released from the bank's lien, no statement covering it will be submitted.

5. The borrower is responsible for compliance with all the requirements of law on the pledge of goods in process, and with the rules and instructions of the bank.

The officials of the borrower are responsible under the criminal law for disposition of the goods without payment of a proportionate part of the indebtedness to the bank or substitution of other security.

The Director of the Plant.....(signature)

The Chief Bookkeeper.....(signature)

Form 28

TRUST RECEIPT FOR GOODS IN CIRCULATION

The "Tekhnotkan" factory of the Narkomtekstilya hereby delivers to the Moscow Oblast' Regional Office of the State Bank, as security for its indebtedness under a certain time loan (as per application No 28 of 25 April 1945), goods under the following conditions:

1. All the goods hereby delivered are pledged to the bank as goods in circulation, with the borrower having the right to realize it without the specific authorization of the bank, subject however to the express condition that other goods of the borrower's production shall be substituted therefor, without the value of the goods pledged being at any time less than five hundred thousand rubles.

2. A statement (inventory) of the pledged goods, showing the place of storage, is attached to the aforesaid application of the borrower. Such statements will be furnished in the future every 15 days.

3. The borrower is responsible for compliance with all requirements of law concerning pledge of goods in circulation, and with the rules and instructions of the State Bank.

The officials of the borrower will be responsible under criminal law for disposing of the goods without substitution of other goods or payment of a proportionate part of the indebtedness to the bank.

The Director of the Factory.....(signature)

The Chief Bookkeeper.....(signature)

The application for a loan, as well as the notes themselves, made out separately for each maturity included in the loan, are submitted to the bank in two copies (original and duplicate).

On the face of the loan application, what is termed the "position" of the borrower, as of the day the loan is granted, is noted by the credit man, i.e., the credit limit and actual indebtedness of the firm to the bank, the amount of unencumbered collateral available to the firm, the amount of past-due indebtedness to the bank on loans, and the firm's indebtedness to suppliers on unpaid bills and executory documents. The "position" also shows other data determining the financial condition of the firm and its compliance with credit and settlement discipline. The credit inspector certifies all these data by his signature and submits the application, accompanied by the other documents received from the firm, to the manager of the State Bank establishment involved.

When he approves the loan, the manager writes on the application the dates and amounts of the payments by which the loan is to be liquidated. He also indicates the destination of the funds to be paid out, i.e. where the amount of the loan is to be transferred: to the clearing account, or, without passing through this account, to liquidate past-due indebtedness on other loans, to pay past-due bills of suppliers for goods on which the bank is extending credit to the borrower, etc.

After the manager of the State Bank establishment has placed his authorizing initials on the loan application, the original and duplicate of both application and notes are delivered by the credit inspector to the operations clerk that keeps the account of the firm involved. The delivery is handled

internally, i.e. not through the client. The other documents submitted by the firm with the application -- the letter of lien for the material commodity values pledged, the certificate on seasonal expenses, and similar documents -- remain in the hands of the credit inspector, who notes on them the granting of the loan, its amount and date. These documents are then placed in the file on the firm and used for reference purposes.

When he receives the documents that embody the granted loan which has already been checked, as to substance, by the credit department, the operations clerk makes sure that they contain the authorization of the bank manager for the loan, and then checks the agreement of the total amount of the attached notes and of their dates with the data in dispositions of the administration of the bank establishment.

He also checks the correctness of the information on both copies of the time notes and the agreement of the signatures and seals of the borrowing firm with the samples that must invariably be filed with the bank.

After making these checks, the operations clerk draws an account distribution order on the loan application, i.e. fills out the posting memo by entering on the back of the application (see page 177) the numbers of the balance-sheet accounts and personal accounts to which the loan transaction is to be posted.

1

Copy

Form 28

(Face of Loan Application)

"Avangard" Factory of Glawetalloizdelie of Narkowestprom

(Name and address of Borrower)

Novaya Ul. No 37

Clearing Account No 98121 Tel. No. 1-12

To The Alekseyevsk Branch of The State Bank

Date 25 April 1945

Application No _____

We request you to grant us a loan in the sum of Rub. 500,000
(in figures)Five Hundred Thousand
(in words)For the following purposes: Seasonal Stocks of Material Commodity
Values

We attach: 1. Time Notes

2. Letter of Lien

3. Statement of Material Commodity
Values

We obligate ourselves to obey the rules of the state bank on credit operations.

L.S. of The Director of the Factory.....(Signature)

Factory The Chief Bookkeeper.....(Signature)

(Signatures of Client Only on Original)

To Be Filled In By Bank

Date Application Received

25 April 1945

Borrower's Position As of

25 April 1945

1. Limit Rub. 800,000

2. Indebtedness " 300,000

3. Free limit " 500,000

4. Free collateral " 600,000

5. Indebtedness for

past-due loans and

interest " 150,000

6. Card-file No 2 " 100,000

7. Other Data

The Credit Inspector
(Signature)

(See Other Side)

To Be Filled Out In Two Copies: 1st Copy To Debit Loan Account -
Remains in Documents of the Day; 2nd Copy to Credit Account and
Is Attached To Bank Statement

328

Form 29

(Back of Application)

Disposition of Administration: Grant Loan in Amount of

Date 25 April 1945

Rub. 500,000 With the Following Maturities:

Date of Liquidation	Amount	Date of Liquidation	Amount	Operations	Type of
1 June	250,000	-	-	Clerk No 2	Operation No 3
1 July	250,000	-	-	POSTING MEMO NO 127	

The Amount Granted is to be Applied as Follows:

(a) To liquidate past-due loans	Rub.	150,000
(b) To pay bills in card-file No 2	"	100,000
(c) Credit clearing account		250,000
(d) _____		_____
(e) _____		_____
(f) _____		_____

DEBIT	
a/c No 25099121	500,000
CREDIT	
a/c No 9099121	R. 150,000
CREDIT	
a/c No 263	R. 100,000
CREDIT	
a/c No 98121	R. 250,000

Date 25 April 1945

The Manager (Signature)

The Controller (Signature)

Operations Clerk (Signature)

Form 30

(Face of Note)

1

Copy

Textile Factory
"Krasniy Tekstil Shchik
(Borrower)

TIME NOTE NO 13

On July first One Thousand

(Maturity Date in words)

Nine Hundred Forty Five

For the Loan Received by us we are

Obligated to Pay to the State Bank USSR

In the City of Saratov

Rub. Two Hundred Thousand

(In Words)

At Maturity You Will Please Debit Our

Clearing Account NO 52171 With You

For The Amount Of This Note

City Saratov

Date 29 May 1945

L.S.

(of Factory)

The Director Of The Factory (Signature)

The Chief Bookkeeper (Signature)

(Back of Note)

NOTATION OF PAYMENT

DATE

1 July 1945

AMOUNT

100,000

Signature

Yermolayev, Sergeyev

Maturity

1 July 1945

Amount

Rub. 200,000

Purpose of Loan

Planned Loan

On application NO 21

Remarks

Filed by due-dates and Returned to Borrower After Payment

ACCOUNTING OF LOANS

The loans granted to a firm are recorded in the balance-sheet account of Group VII that is designated to record the loan operations of all enterprises and organizations of the Narkomat, Department or Cooperative system in question. Thus, for instance, the indebtedness of the plants of the heavy machine-construction industries in the system of Narkomtyazhmash, is recorded in balance-sheet account No 39 "Narkomtyazhmash Enterprises -- loan accounts", that of the Raypotrebsoyuzy on balance-sheet account No 92 "Consumers" Cooperatives -- loan accounts", and so on. As for the analytical accounting, separate personal loan accounts of the same form as clearing accounts (see page 96) are opened for each borrower firm.

Detail accounts are [also] opened to give a breakdown by purpose, type and form of the credits. The number of detail loan accounts for each group of clients is limited and determined by the credit instructions for the branch to which they belong.

If all the loans granted by the State Bank were recorded on a single loan account, then it would obviously be extremely difficult to exercise due surveillance over compliance with the limit established for specific objects of credit.

As a rule the amount of a loan is credited to the borrower's clearing account. In occasional instances, it may be permissible to deviate from this pattern in order to better assure the use of the loan for its intended purpose. Thus when a loan is granted to issue a letter of credit or allow the purchase of limited checkbooks

for settlements with carriers, its amount is directly credited, in accordance with its purpose, to balance-sheet account No 236 "Letters of credit issued" or No 219 "Limited checkbooks for settlements with carriers", as the case may be. The amount of a loan not paid at maturity is transferred on the same day to account No 222 "Past-due notes on short-term credit".

When the trust receipts are delivered to the cashier's office, a non-balance-sheet additions posting order is drawn. Each such trust receipt is recorded on account No 426 "Various documents and securities" at the nominal valuation of 1 ruble, which makes it possible to know at all times how many such receipts are in the vault.

All of the documents that formalize a loan, and all the entries to the personal loan account, are checked by the controller. After checking, the controller sends the first copy of the application, now transformed to a posting memo, and the non-balance-sheet additions posting order, together with the letter of lien, to the employee that keeps the general journal. After posting it to the journal, the journal clerk files the loan application with the documents of the day, and sends the letter of lien and the non-balance-sheet posting order to the cashier's office.

The second copies of the loan applications are returned to the credit man to be kept for reference in the file on the borrowing firm. In State Bank establishments with machine accounting, the second copy of the loan application is first

used to post the credit for the loan to the borrower's clearing account.

At the end of the operating day, the operations clerk draws a summary additions non-balance-sheet posting order for the total amount of the time notes taken in during the day, to account No 402 "Time Notes for Short-term Loans".

After this posting order has been proved by the controller against the original time notes, it is delivered with them to the journal clerk, whence it goes to the cashier's office.

At the end of the day, the journal clerk proves the increase in account No 402 against the total amount of time notes that have arrived in the cashier's office during the day.

The original time notes are kept in the vault, while their copies are kept by the operations clerks in card files or packages, arranged by maturities, and, within each maturity date, by borrowers.

The demand notes are kept in the same card-files or packages as the time notes, but in front of them, in a separate compartment, or else in a separate card file or package. Past-due notes are arranged by borrowers, and are kept in a separate card file or in a separate compartment of the tickler card file.

A staffel is kept for the tickler or fixed-maturity card file, and shows daily additions, reductions and balance, each for number of notes and total value. If there are a number of fixed-maturity card files, a separate staffel is kept for each

of them, showing the same daily totals. The total balance shown by the staffel, or the sum total of the balances shown by all of them, is proved every day against the balance shown on the daily proof sheet for non-balance-sheet account No 402 "Notes on short-term loans". It is also proved against the vault register.

At least once a month all State Bank establishments prove the totals of all unmatured time notes, demand notes and past-due notes kept in the vault against the figures shown by the staffel and against the copies of the time notes kept in the operations department. The total of the notes in the card files must correspond with the balance of account No 402 on the date of the audit. A formal certificate of the audit is drawn up.

When a new loan is granted to a firm with a past-due indebtedness to the State Bank, the proceeds of the loan are applied in full or in part to the liquidation of such indebtedness. Similarly a loan granted in consequence of the conversion of one type of credit into another is applied to the liquidation of a pre-existing loan without crediting the proceeds to the clearing account.

5. THE OPERATIVE AND ACCOUNTING TREATMENT OF LOAN LIQUIDATION

The tickler file is used to follow-up the prompt payment of loans. Every day the employees that keep these files take out the notes due on that day. No special instructions for payment of time loans are issued by the firms, since the appropriate dispositions have already been given by them in good time, on the very forms of the notes themselves. The payment of time notes

made by kolkhozes is an exception to this rule, and is effected only on written instructions of the makers.

These copies of the maturing notes are checked, for control purposes as to number of notes and amount against the originals in the vault. The copies are then arranged according to borrowers and the possibility of payment ascertained from the clearing account balances (when there are other payments to be made, the order of priority is also considered).

Time notes are paid at the beginning of the operating day on which they mature. When paying a time note, the operations clerk places an account distribution memo on it (to show the numbers of the balance sheet account and personal accounts to which the amount of the paid note is to be posted). This amount is debited to the firm's clearing account and credited to its loan account.

At the close of the operating day, a summary reduction non-balance-sheet posting order to account No 402 "Notes on short-term loans" is drawn for the total amount of the notes paid during the day. The number and amount of such notes is shown separately for each borrower either on the posting memo itself or in a schedule attached to it. On the basis of this posting memo the cashier's office stamps such notes "paid", adding the date, and releases them to the Operations Department.

The original paid note is delivered to the borrower with its statement of clearing account, while the copy, formalized as

a posting memo, is filed with the documents of the day after it has been posted.

The work of the operations clerk in documenting the payment of notes and posting the personal accounts is checked by the controller.

At the end of the operating day, the journal clerk proves the decrease in account No 402 "Notes on short-term loans" against the total of the notes paid in full during the day and accordingly released by the cashier's office and against the amount of partly paid notes.

6. PARTIAL LIQUIDATION OF TIME NOTES

There may be insufficient funds in the borrower's clearing account on the due date of a time note to pay it in full. Assume for instance that the "Krasniy Liteyshchik" iron foundry, belonging to the system of the Narkomat of ferrous metallurgy, has altogether 40,000 rubles in its clearing account, while it must pay notes for 300,000 rubles. In this case a partial liquidation of the loan must be made at the beginning of the operating day, in the amount of the balance in the clearing account, if there are no other claims subject to payment ahead of the indebtedness to the State Bank.

In our example the following entries must be made: Debit balance-sheet account No 172 "Enterprises of the Narkomat of Ferrous Metallurgy" -- clearing accounts", by the clearing account of the "Krasniy Liteyshchik" plant; Credit balance-sheet account

No 173 "Enterprises of the Narkomat of Ferrous Metallurgy -- loan accounts", by the corresponding detail loan account of the plant; in the sum of 40,000 rubles.

After partially liquidating the time notes at the beginning of the operating day, the Operating Department should, at the close of that day, apply [as necessary] against the balance of that debt all funds credited to the clearing account in the course of the day. (The order of priorities must of course be observed in making such charges.) If the note is still not paid in full after such application, the unpaid balance is transferred on the same day to balance-sheet account No 222 "Past-due indebtedness on short-term credits".

Let us take another case, in which the entire amount of the note becomes past-due, i.e. when it cannot be paid either at the opening or the close of the operating day, owing to lack of funds in the clearing account. The entire amount of such a time note is transferred at the end of the day to balance-sheet account No 222 "Past-due indebtedness on short-term credits", and is then recovered at the first opportunity, as funds appear in the clearing account (but in the order of priorities).

To follow up the liquidation of past-due notes, default is noted on their copies, which are then transferred to a special compartment of the tickler file, ahead of the notes to mature, or to a separate card file.

The copy of the time note not liquidated at maturity cannot be used as a posting medium to transfer the past-due amounts to

account No 222, since it must remain in the card-file.

A posting memo is therefore drawn in the total amount of the past-due notes in question, with the account distribution: Debit account No 222, Credit corresponding loan accounts of the borrowers.

This posting memo is drawn in duplicate. The original serves as a medium for posting the amounts of the defaulted notes to the balance-sheet accounts and detail accounts, while the copy is delivered to the cashier's office at the end of the day for use in noting default on the original notes in the vault.

The amounts of past-due notes are not charged out of non-balance-sheet account No 402 "Notes on short-term credits". They must invariably continue to be carried on this account, but, as has already been stated, such notes are kept in the vault in a separate compartment of the card file (or in a special packet, apart from the unmatured time notes.)

Past-due notes are paid before unmatured time notes, as funds appear in the clearing accounts of the borrowers, in the order of priority prescribed by law.

On part payment of time notes, a non-balance-sheet reduction order is drawn against account No 402, besides the posting memo for the same amount necessary for posting the balance-sheet accounts. The reduction order shows the amounts so paid on each part-paid note. The date and amount of each part payment is entered on the back of such notes (see the form

of note on page 178). At the same time a pencil line is drawn through the original amount of the note, shown in figures in the upper right hand corner of the note, and the new balance is shown next to it. When the cashier receives the non-balance sheet reduction order, he makes analogous notations on the original note in the vault.

7. PAYMENT OF TIME NOTES BEFORE MATURITY AND EXTENSION OF LOANS

All firms have the right of paying their notes before maturity. The State Bank effectuates such payments only on written dispositions of the borrower. They are made on the initiative of the bank itself only when measures of credit action [or restriction] are imposed -- for example, if the material commodity values securing a loan are found on examination at the firm's premises to be inadequate security.

The operative and accounting formulation of loan liquidation before maturity is handled in the same way as when liquidated at maturity.

In some isolated and exceptional cases the State Bank permits the delay termed "extension" in the payment of a time note, i.e. lengthening of the period for payment. Extensions are granted on the borrower's application.

Extensions of term notes are not entered on either balance-sheet accounts or non-balance-sheet accounts. The formal expression of extensions is confined to the entry, on the back of the original

note, and of the copy, of the legend "Extended to..... (day and month in words), 194-. dated" The bank manager signs this legend on the copy of the note. The notation is made on the original by the cashier, on the basis of a service memorandum signed by operations clerk and controller.

In cases where the time for payment has been extended pursuant to disposition of a higher-level State Bank establishment, the extension legend refers to such disposition, giving its number and date.

8. THE OPERATIVE AND ACCOUNTING TREATMENT OF THE GRANTING AND LIQUIDATION OF LOANS AGAINST SETTLEMENT DOCUMENTS IN TRANSIT

Loans on settlement documents in transit are granted to suppliers in connection with their need for the funds that originate in settlements with their customers, under the acceptance procedure, for goods delivered or services rendered. As is generally known, the supplier does not receive payment immediately upon shipment of goods or rendering rendition of services, but only after the bill drawn by him has been accepted and paid, and the amount due him has been transferred from the State Bank establishment that serves the purchaser to the one that serves him.

Loans against settlement documents represent a very widespread form of bank credit. The settlement documents for goods shipped or delivered by the suppliers are the objects on which such credit is granted.

Such documents for out-of-town settlements include bills, lists of small invoice accounts, the settlements for which do not pass through the bank, and, finally, lists of out-of-town invoice-accounts cleared through the Bureau of Mutual Settlements [Clearing House].

As has been said in section 12 of Chapter V, the State Bank will not lend against bills deposited for collection more than three working days after shipment of the goods thereby represented (not counting the day of shipment or delivery [as the case may be]). Thus, for example, the State Bank will not lend against bills presented to it on 11 May for goods shipped on 5 May.

Credits against settlement documents in transit are recorded by the State Banks on a separate detail "Loan account against settlement documents in transit". This account is opened for the supplier on an application-obligation presented by him to the bank. The bank does not take time notes from its clients for this type of credit.

The suppliers' bills are, as a rule, accepted as security for the loan account on settlement documents in transit during the document return period. The procedure for calculating this period has been indicated in Chapter V.

List-notes of city collection bills are carried for 3 or 4 working days as security for credit against settlement documents in transit, as has been explained in Chapter V.

Lists of invoice-accounts for small out-of-town shipments are accepted as security for such credit for the average document return period, which is fixed quarterly on the basis of data supplied by the suppliers on the actual document return period for such shipments.

The documents accepted by the State Bank as security for loans against settlement documents in transit (bills and lists), as has been said in Chapter V, are recorded on non-balance-sheet account No 435 "Settlement documents forwarded for collection."

Settlement documents in transit are excluded by State Bank establishments from the security for the loan account under the following circumstances:

(1) When out-of-town collection bills have been paid in full or in part, or when the document return period has expired and advice has been received that the payer has no funds or refuses to accept;

(2) on expiration of the period indicated on list-notes for local settlements, lists of small invoice-accounts, and lists of documents for settlement through the clearing house (regardless of their actual payment).

In contrast to the lending procedure for other types of credit, the granting of loans on settlement documents in transit is not reflected on the detail loan account of the supplier for each separate settlement document financed. Such an operative and accounting formulation would require a large amount of work

of both the bank and supplier.

To avoid this, a simpler procedure is employed : the bank gives the supplier loan credit against the balance of settlement documents in transit at a given time, by comparing the amount of this balance with the indebtedness of the firm against settlement documents in transit as of the same date, and then determines the amount of the supplementary credit that should be granted to the firm on its existing security, or as the case may be, the amount that it should pay the bank to liquidate the unsecured portion of the indebtedness. The bank thus makes periodic adjustments of the indebtedness outstanding on this type of credit by bringing it into line with the existing security.

The adjustment of credit against settlement documents in transit is made at intervals agreed with the firms, but as a rule at least once every three days. The adjustment intervals fixed for some firms are 1-2 days.

As everyone knows, collection documents are recorded at the selling price on the account "Settlement documents forwarded for collection", i.e. for the full amount of the bill. As a rule, however, credit against settlement documents in transit is granted not on the selling price (on which the security is recorded), but on the settlement price, excluding the part represented by the planned profit if this profit is already included in the settlement price established for the firm. The bank gives credit for the shipping costs included in the settlement documents, for costs connected with packing, and for the value of the tares.

The bank does not allow credit for that part of the supplier's gross proceeds which constitute amounts allocated to higher-level links (trust or Glavka), to budget surcharges and to the turnover tax. In this connection it is necessary to fix the extent of the deduction from the selling price, to cover those elements of the gross proceeds which are not the basis of bank credit. To fix this deduction, the supplier submits a quarterly certificate to the State Bank establishment that services it, not later than the 20th of the second month in the quarter, showing the realization of material commodity values during the past quarter.

The percentage of deduction is sometimes also fixed monthly on the basis of certificates submitted by the supplier firms on the amounts realized for their production during the preceding month, if the relative proportion in the proceeds of elements not acceptable as loan security changes sharply in connection with changing assortment of the production to be realized and changes in the destination of the shipments.

If the supplier firms do not submit such certificates to the bank, the bank discontinues further lending against settlement documents in transit, without prejudice to its recovery of indebtedness shown by the adjustment of the loan account to be unsecured.

The adjustment of the loan account against settlement documents in transit is carried out by a certificate-and-conclusions. This certificate is drawn up jointly by the credit

inspector and the operations brigade, and fixes the balance of the security for the loan account, as of the beginning of the operating day on which the adjustment is made. This security is carried on account No 435 "Settlement documents forwarded for collection" (Schedule A). The deduction for elements in-acceptable as security is next calculated, and the amount of the security after application of the deduction is then determined. This amount is compared with the indebtedness on loan account against settlement documents in transit, as of the same day. As a result of this comparison, excess or insufficiency of the security on loan account is determined. The certificate and conclusion, as well as the amount of the deduction, is approved by the bank manager, after which the amount due to the firm on the certificate of supplementary credit, within the limits of the excess security, is credited as a rule to the clearing account of the firm, (unless the firm has filed a rejection of such credit with the bank.) In doing this, the bank uses the certificate-conclusion as a posting memo. It must be borne in mind that the bank honors the rejection of such supplementary credit only if the firm's clearing account is free from claims subject to compulsory payment. But if the firm has any past-due indebtedness on loans by the bank (or indebtedness to suppliers), the bank disregards its rejection and applies the amounts of such supplementary loans, to be issued against settlement documents in transit, directly to the liquidation of past-due items, without passing through the clearing account.

The amount of indebtedness found during adjustment of the loan account to be unsecured is liquidated [if possible] from the

clearing account. If the borrower firm has no funds, the amount is transferred to account No 222 "Past-due indebtedness on short-term credits".

The amounts received in payment of settlement documents accepted as security for a loan account are credited to the clearing account of the client being financed, except in cases where pursuant to law the proceeds of production realized are applied directly to the payment of indebtedness to the bank, especially that on special loan accounts.

A somewhat different system of financing settlement documents in transit has been set up for trading organizations that use credit on current goods turnover in the form of special loan accounts. The amount of collection bills deposited with the bank by trading organizations is debited to a loan account against settlement documents in transit and credited to a special loan account on goods turnover. At the same time, all payments received on collection bills deposited are credited directly to the loan account against settlement documents in transit, in liquidation of the indebtedness on this account. Simultaneously with the (periodic) adjustment of the special loan account on goods turnover, the adjustment of the indebtedness on the loan account against settlement documents in transit is also effected. If the amount of indebtedness exceeds the amount of the security, the difference is recovered from the clearing account of the trading organization, or if there are no funds to liquidate the debt, it is transferred to past-due items. If, on the other hand, the indebtedness on the loan account against

settlement documents in transit is less than the existing security, that loan account is debited in the amount of the free security, and the clearing account of the trading organization is credited correspondingly.

To illustrate these points more graphically, we now consider an example of the process of adjustment of indebtedness on loan account against settlement documents in transit.

Example. The "Novaya Zarya" factory of the Narkomat of Light Industry is financed by the Aleksandrovsk Branch of the State Bank against settlement documents in transit.

Assume that adjustment of the indebtedness on the loan account of the factory against settlement documents in transit is effected as of 1 May 1945, with the indebtedness on loan account as of this date equal to 2,442,000 rubles; as security, there is a balance of 2,880,000 rubles of settlement documents, at selling prices, carried on Schedule A of the non-balance-sheet account "Settlement documents forwarded for collection", together with a balance of 720000 rubles of list-notes for city settlements.

In this case the credit man and the operations brigade jointly draw up the following Certificate and Conclusion.

Form 31 (page 188)

Form 31

Aleksandrovsk Branch of the State Bank

CERTIFICATE AND CONCLUSION

on audit of the security and indebtedness on loan account
against settlement documents in transit

Name of firm: "Novaya Zarya" factory of NKLP

Loan account No 1051021 on 14 May 1945 (in thousand rubles)

Balance of security on non-balance-sheet account 3600

Total 3,600

432

Less: 12% deduction

Total Security 3,168

2,442

Indebtedness on loan account

Excess Security 726

Shortage of Security -

The Credit Inspector (Signature)

The Controller of the Operations Department (Signature)

Disposition and Order to Operations Department

Debit loan account

Debit clearing account

No 1051021 Rub. 726000

No Rub. -

Credit clearing account

Debit account No " -

No 50021 Rub. 726000

Debit account No " -

Credit account No 222

"Past-due indebtedness

Credit loan account

on short-term credits"

No Rub. -

and detail account

No 9051021 -

The Credit Inspector

(signature)

The Controller

(signature)

Approved: (Signature of Manager of State Bank Branch)

As is evident from the Certificate-Conclusion presented, the settlement documents carried in the total amount of 3,600,000 rubles on account No 435 "Settlement documents forwarded for collection" as security for the loan account of the factory against settlement documents in transit, have a loan value of only 3,600,000 rubles, i.e., after applying the 12 percent discount, a supplementary loan of only 726000 rubles can be made.

Besides the accounting of the security, the certificate-conclusion also contains a "disposition and order to the Operations Department which consists of a posting memo that embodies the account entries of the results of adjusting the loan account against settlement documents in transit. In this particular case, on the basis of this order, approved by the manager of the State Bank branch, the operations brigade must debit the factory's loan account against settlement documents in transit -- No 1051021 -- for 726000 rubles (the amount of excess security) and credit the factory's clearing account No 50021 for the same amount. After entry, the certificate-conclusion which also includes a posting memo, is placed with the documents of the day as a justification of the action.

There are cases where the total of the indebtedness on adjustment proves higher than the amount of the security. In that case the certificate-conclusion indicates how much the factory has overborrowed. It is necessary to charge the amount of such overborrowing against the current account of the factory on that same day. If the funds in that account are insufficient to liquidate this [excess] indebtedness in full, the amount of the

shortage is transferred to the past-due loan account.

9. LOANS FOR LETTERS OF CREDIT AND SPECIAL ACCOUNTS

As we have seen, when the bank grants credit to a supplier on collection bills deposited, it fills by its credit the normal gap experienced by the supplier between time of shipment or delivery of the goods to the buyer and receipt of payment for these goods from the buyer. In settlements on letters of credit or special accounts, the buyer experiences an analogous gap, for he must first deposit with his bank branch the amount of the credit to be opened, or transfer the corresponding amount to the branch of the bank at the suppliers' domicile to open the special account there. It consequently takes a certain length of time for the payer to receive the settlement documents (invoice-accounts) paid by letter of credit or special account.

The bank grants the payer (guarantor) credit for issuing the letter of credit only if government decrees or instructions of the Head Office of the State Bank prescribe the letter of credit form for the type of settlements involved, or if it is envisaged by the contracts between suppliers and purchasers, by the terms of occasional transactions or of purchases outside the plan. In the last two cases the guarantor, to obtain a loan, must exhibit to the bank a notice from the supplier or his authorized representative that the goods have been prepared for shipment.

As has been said already, the amounts of loans of this

type are carried in account No 236 "Letter of Credit Issued". The actual lending is connected with the utilization of the letter of credit. Unless it is utilized, the borrower does not in fact receive an actual loan. For this reason loans granted for the issue of a letter of credit are collected to the extent the credit thereunder is used, in the amounts of payments made pursuant to such letter of credit. The technique of formulating the granting and liquidation of loans for letters of credit is constructed accordingly.

As is well known, the amounts paid against a letter of credit by the beneficiary (supplier's) branch of the State Bank are debited through account No 263 "Interbranch transfers initiated during current year" [MFO Initiated] to the branch that has issued the letter of credit on the instructions of the purchaser. When this branch receives the MFO debit advice for the payments made under the credit, it charges such amounts to the deposits made by the purchaser in account No 236 "Letters of credit issued" when the credit was opened, and delivers to such purchaser the paid invoice-accounts accompanying the debit advice.

To make it possible for the borrowers to plan their forthcoming payments at fixed dates, as well as to reduce, to some extent, the work involved in partial collection of loans for letters of credit, these loans are liquidated not as each separate debit advice for payments under the credit are received, but at 10 day intervals, in the amount of all such advices received during the 10 day period. The payment dates of such loans

are fixed accordingly. A loan for the issuance of a letter of credit is granted on a loan application of the firm, submitted to the bank with the application for the letter of credit. If the bank finds it possible to finance the transaction, it fixes the first repayment date 10 days after the time required for the supplier's bank to receive the letter of credit and the purchaser's bank to receive the documents paid under the credit and sent to the latter by the former. This date is thus fixed for telegraphic credits at 10 calendar days after issue, plus a single mail transit time from the supplier's bank to the purchaser's bank. For mail credits, this period is increased by another mail transit time, and is thus 10 days plus the round-trip mail transit time.

The borrower at whose instructions the credit is opened gives the bank a time note due on the day so calculated, for the full amount of the loan. This note is drawn in the usual form prescribed for time loans, with the single difference that it is stamped "For letter of credit No" and the number filled in. It is recorded on non-balance-sheet account No 402 "Notes on short-term loans".

The amount of the loan granted does not pass through the borrower's clearing account, but is credited directly to the detail account opened for the letter of credit under balance-sheet account No 236 "Letters of credit issued". Such loans are carried in a separate detail loan account.

On the due date of the note, the State Bank debits the individual letter of credit account so opened for the amount paid

to date under that credit. The loan granted to establish the credit is liquidated to that extent by charging the clearing account of the borrower and crediting its letter-of-credit loan account. If the amount of the credit proves at this time to have been completely utilized, then the time note is liquidated in full, non-balance-sheet account No 402 "Notes on short-term loans" is reduced in its full amount, and it is returned to the borrower. If on this due date, however, the credit has only been partially utilized, the time note is liquidated only to the extent of such utilization, and, consequently, the liquidation is formulated as a partial one.

The unpaid balance is then extended for 10 days, but in no case beyond the date the credit is to be closed at the payer's branch.

When payment of a loan is extended, the new due-date is entered at the top of the original and duplicate note, which are then filed in the card-files of the vault and Operations Department, respectively, under the new maturity.

When the 10 days for which the note was extended have expired, the loan is again reduced, under the same procedure, by the total amount paid out under the credit during the preceding 10-day period, while the unutilized balance of the letter of credit loan is extended for a further period of 10 days, or until the expiration date of the credit, whichever is sooner.

This process continues until the letter of credit has been completely used, or until it expires. If the borrower's clearing account is short of funds for payment, the note is partly paid to

the extent of the balance in that account, and the deficit [of the installment then due] is transferred to account No 222 "Past-due indebtedness under short-term credits". If the note is extended as to the remainder [after such transfer], and consequently remains in the Time Note card file, then a copy of the posting memo is placed in the "Past-due notes" compartment for following up the liquidation of the past-due portion of the note. [The text is not entirely clear as to whether the entire unpaid balance of the note is automatically transferred to past-due account on such default. This would not seem too likely, since the liability for the unused part of the credit is ~~essentially contingent~~; and the "if" in the next sentence should probably be clarified by the qualifying clause "in consequence of the incomplete utilization of the credit", i.e. all unused amounts are presumably extended automatically.]

The procedure followed when loans are granted to establish special accounts is analogous to that used for letter of credit loans. The term of loans granted to establish or replenish a special account is calculated by allowing 15 days from the date of the loan and adding the mail transit time to the State Bank branch where the special account is to be opened, if this is done by telegraph, or twice the mail transit time, if done by mail.

When a special account is established on the basis of a loan granted for that purpose, as has been said in Chapter V, the branch serving the purchaser debits the individual loan account of the firm for the amount of the loan and credits account No 263 "MFO initiated during current year" through which the amount of the loan is transferred to the branch serving the supplier. The note covering the loan is recorded in the usual manner on the

non-balance-sheet account "Notes on short-term loans".

In contrast to letter-of-credit loans, a loan to establish a special account is paid in full on its due date. Only one extension is granted for 30 days, in the amount of the unused balance of the special account on such due date. The extension is formulated on the basis of an application made by the purchaser, who submits a telegram from the branch where the special account was opened, confirming the amount of the unused balance of that account.

If funds in the borrower's clearing account are insufficient to liquidate the loan in full at maturity, and there is no ground for its extension, the unpaid portion of the loan is transferred to account No 222 - "Past-due indebtedness on short-term credits".

10. LOANS FOR THE PURCHASE OF LIMITED CHECKBOOKS

Loans to purchase limited checkbooks, like those to open credits or special accounts, belong to the class of transit credits. They are carried on separate individual accounts, and are made payable on demand. A credit to purchase limited checkbooks is granted, as a rule, in an amount not exceeding the average five-day requirements of the firm for funds to pay tariffs and freight charges. The amount so required is calculated from the reported figures on its payments for rail and water transportation during the preceding month.

On making such a loan, the bank debits the firm's detail loan account under the corresponding balance-sheet loan account (Group VII of the balance sheet) and credits the firm's detail

account under balance sheet account No 219 "Limited checkbooks for settlements with carriers". Simultaneously such a limited checkbook is issued to the borrower on its application.

In contrast to ordinary time loans, the demand note for the amount of the credit opened, received from the borrower when the loan for the limited checkbooks is first granted, and recorded on non-balance-sheet account No 402 "Notes on short-term loans", remains without activity in this account until some change is made in the amount of this form of credit granted to the firm. As the limited checkbooks are used and the loan for their purchase correspondingly reduced, the firm receives new loans, up to the limit of the amount of the note given the bank, and acquires new limited checkbooks with the proceeds, without giving the bank new notes.

When the size of the credit is changed because the firm's transportation expense has increased or decreased, the note is redrawn in the new amount. Accordingly, either a part of the former loan is recovered from the borrower or a supplementary loan is granted.

Credit for the purchase of limited checkbooks is granted with the object of closing the gap that develops in the suppliers funds between the moment of payments of the transportation charges for the goods shipped to the payer to the time when the invoice accounts and the bills are drawn, delivered to the bank for collection, and a loan against settlement documents in transit is obtained against them. For this reason the liquidation

of such loans coincides with the dates of the readjustments of the loan account against settlement documents in transit, while the amounts due to the firm on this account are applied in the first instance to the liquidation of its indebtedness on loans given for the purchase of limited checkbooks.

Such loans are liquidated at least once every ten days, in the amount to which checks have actually been drawn.

Example. A credit in the amount of 100000 rubles for the purchase of limited checkbooks for settlements with the carriers is opened for a firm. A demand note of the firm for this amount is recorded as an addition to account No 402 "notes on short-term loans". On 3 April, the readjustment day for the loan account against settlement documents in transit, the credit man determines that the indebtedness of the firm on limited-checkbook loan account is 90000 rubles, while the balance in the accounts "limited checkbooks for settlements with carrier" is 66000 rubles; in consequence it is determined that the loan must be reduced by 24000 rubles.

120,000 rubles are due to the firm on the certificate-conclusion as a result of the readjustment of its loan account against settlement documents in transit. In this case only 96000 rubles are transferred to the firm's clearing account, while 24000 rubles are applied in reduction of its indebtedness on limited checkbook loan accounts.

On 5 April, the firm again applies for a limited-checkbook loan. Since a credit line of 100000 rubles has been opened for

it for this purpose, while its indebtedness on this type of credit is 66000 on 5 April, the bank makes a supplementary loan of 34000 rubles, credits this amount to the account "Limited checkbooks for settlements with carriers," and issues limited checkbooks to the firm for this amount. The bank does not take the firm's note for 34000 rubles, since it already has its note for 100000 rubles as general security for this loan.

If there is nothing due to the firm on the day its loan account on settlement documents in transit is readjusted, but on the contrary, a reduction must be made on this account because the security is insufficient, the sum required to reduce the loans for limited checkbooks is charged, if possible, to the clearing account, unless it has no funds, when the amount is charged instead to account No 222 "Past-due indebtedness on short-term credits".

If limited checkbooks are returned by the firm, the amount of the unused limit on such books is applied to reduce the indebtedness on the loan for their purchase. The bank makes the following entries in this case: Debit balance-sheet account No 219 "Limited checkbooks for settlements with carriers"; credit the corresponding balance-sheet loan account. As in text. No reference to detail accounts!7. The balance of the loan is directly recovered from the borrower's clearing account.

11. SPECIAL LOAN ACCOUNTS

One of the differences between a special loan account and the ordinary time loan accounts is that the debit entries to special loan accounts corresponds for the most part not with the borrowers clearing account, but with other balance-sheet accounts, such as for instance, account No 263 "MFO initiated during current year", or with the clearing or current accounts with other firms.

The account "MFO initiated during current year" is the contra account of a special loan account when bills of out-of-town suppliers or payment orders of the borrowers themselves are paid in settlement with the suppliers or with out-of-town deliverers of agricultural products. When bills, payment orders and crossed checks are paid in local settlements, the clearing or current accounts of other firms are the contra accounts.

The employment of the form of a special loan account has proved particularly justified in financing state collections. The State Bank pays those who deliver the agricultural products accepted from them out of the special loan accounts of the State collections agencies, without limit, and regardless of whether such agencies has any past due indebtedness to the bank on other types of loan.

The State Bank credits all amounts received from the realization of agricultural raw materials directly to the special loan account. This procedure on the one hand guarantees the continuity of the state collection agencies settlements with the sellers as

soon as the agricultural raw materials have been delivered, while on the other hand it makes it possible for the borrower to obtain state bank loans at the moment and to the extent required to make payment for the materials so to be financed.

The special loan account is also employed in financing the current stock-turnover of trading organizations, but with the substantial distinction on which we shall dwell below.

12. THE SPECIAL LOAN ACCOUNTS OF STATE COLLECTION ORGANIZATIONS

The special accounts of state collection organizations are carried on the same balance-sheet loan accounts that reflect all other loan operations of these organizations.

The special loan accounts of state collections organizations are kept in the following form:

Form 32

State Bank USSR
city Ostashkov
Kalinin Oblast
Usl. No 13142

Special Loan Account No 15053027

Title:
Ostashkovskaya Rayon Office
of "Glavzagotpen Koprom"
Address: Ostashkov City

Sheet No 71

Scheme 9

Group 1

Symbol 76

Date Entered	Substance of Turnover	No of Contra Account	Financial Debit	Movement Credit	Balance Debit	Balance of Collateral at Opening of Operating Day	Checked by Controller
1945	Balance brought forward	-	-	-	291,500	350,000	Petrov
1 Sept.	Bill 2791, 1948	264	-	26,680	264,770	350,000	Petrov
2 Sept.	City List 21-4	263	71,740	-	336,510	350,000	Petrov
3 Sept.	Transfer from Clearing account	052	-	11,450	325,060	380,000	Petrov
4 Sept.	City Payment Order	263	41,000	-	366,060		

[MFO (interbranch) transit number.]

The detail accounts for recording the collateral on special loan accounts of state collection organizations has the following form:

Form No 33

State Bank USSR
Alekseyevsk Branch

Sheet No 4

Detail Account No 15063120
Non-Balance Sheet Account No 404
"Collateral Against Special Loan Accounts"
Alekseyevsk Zagotpunkt Of Zagotskota
Collateral

Name of Organization:	Name and Numbers Of Documents	Addition	Reduction	Total	Balance Amount of Notes for Advance Credit Therein Included	Checked By Controller
				Balance on 1 August 1945	175,000	25,000
1945						
4 August	Orders No 11 and 17 and Certificate	250,000	150,000	275,000	25,000	Petrov
5 August	Note No 44	10,000	-	285,000	35,000	Petrov
8 August	Note No 43	-	25,000	260,000	10,000	Petrov

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The state collection agencies give the bank lists of their receipts or payment orders for transfer to the accounts of the sellers (kolkhozes and others) to whom amounts are due for agricultural products delivered. These amounts are debited to the special loan account, together with the amounts paid in cash to the sellers by State Bank paying officers.

In places where the State Bank has no paying offices, the cash for paying the sellers (the so-called "advance credit") is delivered to the collection organizations.

Periodically, as this credit is used up and the corresponding certificates are presented to the bank, the amounts paid in cash to the sellers are repaid to the collection agencies from the special loan account.

A loan subaccount is opened by the State Bank branches for the non-khozraszhet Zagotpunkty by the branch of the State Bank at their location. The balances of the subaccounts are periodically transferred to the main special loan accounts of the khozraschet link. These balances as a rule should be credited to the special loan account up to the day of its readjustment.

The readjustment is done periodically at prescribed intervals -- of 6 days -- and consists in comparison of the accumulated indebtedness with the security available. It must be borne in mind that the liquidation of the indebtedness of special loan account is affected by using the proceeds from the realization of agricultural products, which is credited directly to the special loan account without passing through the clearing account.

The over-normative balances of agricultural products collected and paid for and time notes for advance credits are accepted as security for the indebtedness of state collection organizations on special loan accounts. This security is carried on non-balance-sheet account No 404 "Security for special loan accounts" on separate detail accounts which are opened for each state collection organization. The products and the notes for advance credit are entered as additions to account No 404. These notes are presented to the bank by the state collection organizations, mature as a rule in one month, and are drawn in the same form as the notes for the usual time loan (the form is shown on page 178).

Material commodity values are accepted as security for special loan accounts on the basis of certificates of the balances of agricultural products to be financed. The certificates are presented by the state collection organizations on the day when their special loan accounts are readjusted and are in the form shown on page 173. The certificates are kept in the tickler file for account No 404, together with the copies of the time notes for advance credits. There is a separate compartment in this card file for each special loan account, and the documents are arranged in this compartment according to the dates they are to be withdrawn from the security. The original notes are kept in the vault.

The balance of the material commodity collateral enumerated in the certificate is excluded from the security, and the above mentioned account reduced by that amount, when a new certificate

of the balances of agricultural products is presented on the day of regular readjustment of the loan account. The account "Collateral against special loan accounts" is increased by the amount of the newly submitted certificate. The time notes for advance credits are excluded from the collateral at their maturities and are returned to the state collection organizations stamped paid.

It follows from this explanation that the sum total of the certificate on the balances of agricultural products; and the notes in the card file for the account "Collateral against special loan accounts", in the compartment of the state collection organization involved, must at all times be equal to the balance brought down, on the same day, in that organization's individual collateral account.

At readjustment of the special loan account, the collateral against this account is compared with the indebtedness as of the date of the state collection organization's certificate on the balances of material commodity values being financed. The comparison is made on what are termed "readjustment sheets", in which the values of the material commodity values accepted as collateral are calculated and the difference taken between the collateral and the indebtedness on the special loan account, as they stood on the readjustment date. This sheet is used as a posting medium for effectuating the results of the readjustment, and is then filed with the documents of the day.

Readjustment of the indebtedness on loan account against settlement documents in transit is simultaneous with that of the

special loan account against state collections.

If at the time of readjustment comparison between the balance of indebtedness on special loan account and the balance of collateral shows the value of the collateral to exceed the indebtedness, the State Bank Branch transfers the difference (which is called "free credit") to the clearing account of the state collection organization without special instructions from that organization.

If the organization involved is in default on any other type of loan or if (as a result of readjustment of the loan account against settlement documents in transit, or of any other loan accounts) any of its indebtedness is found to be unsecured, then the free credit on special loan account is applied first of all to the liquidation of past-due or unsecured indebtedness to the bank, and only the remainder of that credit is transferred to the credit side of the clearing account of the state collection organization involved.

The value of the collateral may prove to be less, on readjustment, than the indebtedness on special loan account. In this case the unsecured portion of the indebtedness is liquidated out of the free credit that is disclosed by the simultaneous readjustment of the loan account against settlement documents in transit, or out of the free funds in the organization's clearing account. If these funds should prove insufficient as well, then the remaining unliquidated unsecured indebtedness on special loan account is transferred to account No 222 "Past-due indebtedness on short-term credits."

special loan account against state collections.

If at the time of readjustment comparison between the balance of indebtedness on special loan account and the balance of collateral shows the value of the collateral to exceed the indebtedness, the State Bank Branch transfers the difference (which is called "free credit") to the clearing account of the state collection organization without special instructions from that organization.

If the organization involved is in default on any other type of loan or if (as a result of readjustment of the loan account against settlement documents in transit, or of any other loan accounts) any of its indebtedness is found to be unsecured, then the free credit on special loan account is applied first of all to the liquidation of past-due or unsecured indebtedness to the bank, and only the remainder of that credit is transferred to the credit side of the clearing account of the state collection organization involved.

The value of the collateral may prove to be less, on readjustment, than the indebtedness on special loan account. In this case the unsecured portion of the indebtedness is liquidated out of the free credit that is disclosed by the simultaneous readjustment of the loan account against settlement documents in transit, or out of the free funds in the organization's clearing account. If these funds should prove insufficient as well, then the remaining unliquidated unsecured indebtedness on special loan account is transferred to account No 222 "Past-due indebtedness on short-term credits."

13. THE SPECIAL LOAN ACCOUNT FOR FINANCING GOODS TURNOVER

Pursuant to the law of 4 June 1936, the State Bank finances trading organizations by means of the special loan account, on condition that their operations are profitable, that the prescribed proportion of their own resources is used by them in paying for the goods, and that they properly and punctually discharge their obligations to the bank.

A special loan account is opened for trading organizations on the basis of their application-note.

The State Bank pays bills, payment orders and crossed checks issued for goods purchased, out of such special loan accounts.

The goods in turnover with trading organizations serve as collateral for their indebtedness on special loan account.

The bank grants credit to pay for goods by making loans against time notes of average maturity equivalent to the established average turnover period of such goods.

A definite percentage of the obligatory so-called proportional participation of own funds in payment for goods is fixed for each trading organization. If, for example, the proportional participation of own funds is fixed at 30 percent for a certain trading organization, this means that the bank will only grant credit to pay the settlement documents for goods to the

extent of 70 percent of their cost. The remaining 30 percent is paid out of the organization's own resources. The bank systematically checks compliance with this ratio in the case of each separate transaction. This check is made on the day the special loan account is readjusted, which takes place every fifteen days.

The receipts of trading organizations, after deduction of the commercial taxes, are credited directly to the special loan accounts and are included in the proportional participation of own funds in payment for goods and in the liquidation of the notes given to the bank on special loan account. On the day this account is readjusted, the bank makes a settlement with the trading organization for the preceding 15 days. On that day the organization submits to the bank a list of the bills, payment orders and crossed checks paid during that period.

The list separately shows the payments made for goods out of own funds and out of State Bank credits exclusive of the organization's proportional participation; and it likewise shows separately such payments combined under the conditions of proportional participation.

A note in the generally established form (see form on page 178), for the entire amount of the loan shown by the list, is submitted to the bank with the list. If a large amount of note-payments mature on a single date, the organization has the right to space its payments, but in such a way that the general average term of a note that results from the rate of turnover is not exceeded. In this case the organization presents several time notes. The notes accepted are recorded in non-balance-sheet account

No 402 "Notes on short-term loans". The originals are kept in the vault and the duplicates in the tickler card file of the operations brigade.

The notes are not charged out of account No 402 at maturity, but remain in the tickler file until the day of the regular readjustment of the special loan account. After audit of the accounting for the preceding 15 days, the notes that have matured during this period are then charged out of account No 402 "Notes on short-term loans", and the new notes, presented with the list, charged into that account.

After auditing the list, the credit man draws up an accounting of the proportional participation of the trading organization with its own funds and of the payment by it of its notes due to the bank during the preceding 15 days.

On the basis of this accounting is determined: the amount that such client is obligated to pay the bank, out of its own funds, in payment for the goods purchased during that 15 day period under the conditions of proportional participation; as well as that portion of the receipts during that period that actually went to offset the liability for proportional participation.

The excess or deficiency of the client's own resources entering the special loan account is revealed by comparison of these two amounts. Any excess is transferred to the client's clearing account. If, on the other hand, a deficiency of the proportional participation should appear, it is recovered if

possible from that clearing account, or if there are no funds there, transferred to the account "Past-due indebtedness on short-term credits." The balance of indebtedness on special loan account is deducted from the reckoning of the above mentioned adjustments. This balance is compared with the balance of time notes outstanding at the end of the 15-day period. The amount of the new notes delivered to the bank with the list is added to the balance of notes outstanding at the beginning of the 15-day period, and the amount of the notes that matured during that period is subtracted. Any excess of indebtedness on special loan account over the new balance of time notes is liquidated from the clearing account of the client, or transferred, if there are no funds there, to past-due indebtedness account.

We present an example of such an accounting to illustrate the above explanation.

Assume that a trading organization presents to the State Bank a list of the payments on its special loan account during the preceding 15-day period, with the following data:

Form 34

List No 27

of payments for goods on special loan account No 15061016
of RAYTORG Department Store from 1 May to 15 May 1945

I. Total amounts of payments

	Amount
1. Total paid	78,000
This amount includes:	
2. Paid entirely from own funds	16,000
3. Paid entirely from bank loans	12,000
4. Paid under conditions of proportional participation	50,000

II. Distribution of bank loans

Term of Credit	Payments with proportional participation of own funds		Payments without proportional Participation		Total of Loans Received	Maturity of bank loans
	Total Proportional Paid	Amount of Participation 30%	Amount of 30% loans			
25 days	50,000	15,000	35,000	12,000	47,000	2 June

On the basis of this list, the credit man prepares the accounting in the following form:

Form 35

Accounting

of the operations on Special Loan Account No 15061016 of the RAYTORG Department Store
for the period from 1 May to 15 May 1945.

Section I.

Accounting of proportional participation of own funds

	Amount		Amount
1. Receipts credit to Special Account	80,000	4. Amount actually offsetting proportional participation (30% of line 3)	19,200
2. Disbursed to pay for goods not financed	16,000	5. Deficiency in proportional participation (8-4)	-
3. Receipts allocable to goods financed (1-2)	64,000	6. Amount due on account of proportional participation for period 1 May to 15 May	15,000
7. Past-due indebtedness for proportional participation from last audit of Special Account	-	9. Free balance of own funds transferred from clearing account (4-8)	4,200
8. Total amount due on account of proportional participation (6+7)	15,000		

Section II [Form 35 continued]

Accounting on payment of time notes to the bank

	Amount		Amount
1. Amount of notes in tickler card-file at beginning of 15-day period	466,000	6. Indebtedness on Special Loan Account at end of 15-day period (before audit of proportional participation)	464,000
2. New notes added	47,000	7. Indebtedness on Special Loan Account after Adjustment of Proportional Participation	468,200
3. Matured notes withdrawn	76,000	8. Excess of notes in tickler file over indebtedness (4-7)	-
4. Amount of notes as of time of audit of Special Account (1+2-3)	437,000		
5. Excess, subject to recovery from clearing account or transfer to past-due indebtedness, of indebtedness over amount of notes (7-4)	31,200		

16 May 1945. The Manager of the Branch (signature)
The Credit Inspector (signature)

In the preparation of the accounting of proportional participation of own resources, the data on the amount of receipts credited to Special Loan Account are obtained from the Receipts Control Sheet or from the entries to the client's individual Special Loan Account.

The sum of 16000 rubles disbursed out of the receipts to pay settlement documents entirely out of the store's own funds, and also the sum of 15000 rubles due from the store for the 15-day period on account of its proportional participation, are both taken from the list submitted by the store.

It is clear from our example that 19200 rubles, which is the amount of the receipts offsetting the liability for proportional participation -- 19200 rubles -- exceed the sum of 15000 rubles which is due from the store on this account. Consequently, the difference of 4200 rubles may be transferred from the store's Special Loan Account to its clearing account.

In connection with this, the sum of 464000 rubles of actual indebtedness on Special Loan Account at the end of the 15-day period is adjusted in the second part of the accounting. This amount is increased by 4200 rubles, which is debited to the store's Special Loan Account and credited to its clearing account. The indebtedness on Special Loan Account therefore stands, after adjustment of the proportional participation, at 468200 rubles.

The sum of the notes at the beginning of the 15-day period may be taken from the figures of the preceding 15-day accounting.

The amounts of the new notes and of those that have matured and been withdrawn from the card file, are obtained by direct footing of the notes themselves. In our example the amount of indebtedness on Special Loan Account, 468200 rubles, is 31200 rubles more than the amount of the notes. This difference must be recovered from the store's clearing account and used to reduce the indebtedness on Special Loan Account.

14. GRANTING AND LIQUIDATION OF SHORT TERM LOANS TO KOLKHOZES

Short term loans are granted to kolkhozes for the productive expenses envisaged by their estimates of income and expense. The terms of such loans are fixed roughly to coincide with the dates on which the kolkhozes sell their produce.

The produce intended for sale serves as collateral for the loans to be granted.

Short term loans to kolkhozes are recorded on balance-sheet account No 77 "Kolkhozes--loan account". The detail loan accounts of kolkhozes are kept in a special form (see form 36 on page 203).

The peculiarity of this form lies in the fact that in it the indebtedness of a kolkhozes is recorded not only for loans, but also for the interest charged on these loans. The amount of interest charged is reflected on account No 223 "Interest due to the bank". The amounts of short-term loans granted to kolkhozes is applied directly to the payment of bills for

material commodity values which have been shipped or delivered to the kolkhozes and are good collateral. For instance if a kolkhoz receives a loan to purchase materials for the current repair of agricultural machinery, the bills of the organization that has delivered this material to the kolkhoze are paid out of this loan. The minimum loan to a kolkhoz has been fixed at 250 rubles, and may be reduced in occasional instances to 100 rubles.

When a loan is granted to a kolkhoz, the bank takes a note on the general bank form (see form on page 178).

The payment of these notes may take place at maturity if the kolkhoze has by then ordered the State Bank establishment to pay them out of its current account or has deposited the amount of the payments in cash. The bank has no right to charge the amount of the note to the kolkhoz current account without its order for payment.

In order to have the kolkhoz submit a payment order in time for the payment of its regular loan instalments, the State Bank department that has granted the loan send the kolkhoz a written reminder 15 days before the note is due.

If the kolkhoz, up to the due date, does not issue written instructions to the bank, then the amount of the note is transferred to past-due indebtedness on the due date. This is done by the following account distribution: Debit account No 202. "Past-due indebtedness on short term credits"; Credit account No 77 "Kolkhozes -- loan accounts".

The amount of a time note for which a payment order was issued but not executed, due to lack of funds in a kolkhoze's current account, is also charged to the account "past-due indebtedness on short term credits."

The recovery of past due indebtedness of kolkhozes on short-term loans is made through the People's Court.

The interest charged on short term loans to kolkhozes is carried on account No 223 "Interest due the bank" (entries: Debit this account, credit account No 251 "Operating income"). Notices are sent to the kolkhozes on the amount of interest charged.

The bank has no right to charge the interest to a kolkhoze's current account without the instructions of the kolkhoz.

The bank makes the following entries when interest is paid: If paid in cash, debit account No 18 "Cash", credit account No 223 "Interest due the bank" and the individual account of the kolkhoze; on receipt of a payment order to charge the amount of the interest to the current account, the current account of the kolkhoze is debited and the account "Interest due the bank" is credited.

It should be noted that this account "Interest due the bank" is used not only where interest on kolkhoze loans must be entered, but also amounts of interest on loans to other clients also belong on this account, if these sums are larger than the

Form 36

Customer's Loan Account No 077121

State Bank USSR	Bal. A/C	Balance Sheet Account No 223	Sheet No 1
City Zvenogorod	No 77	Date Explanation of Entries Turnover	Balance Audited By
Moscow Oblast	In Economic	Debit Credit	Debit
	Branch Accounting	1945	
	Scheme No 2	25/7 Interest for second quarter	
	Section No 3	at 4% 109.40	109.40 Andreyev
	Symbol No 26	28/7 Your payment order No 23 109.40	
	Transit Number 21115		- Andreyev

"Pobedniy Put"
(Name of Kolkhoz)

Address Zakhar Yevka Village

Date	Explanation of Entries	Contra Account No	Turnover Debit	Credit	Balance Debit	Audited By
1945						
1/7	Balance Forward R.		-	-	10,000	Andreyev
5/7	Loan on your application No 17	263	6,000	-	16,000	Andreyev
9/7	Your payment Order No 14	101	-	4,000	12,000	Andreyev
14/7	Your overdue note due 14/7	222	-	2,000	10,000	Andreyev
16/7	Paid on your payment Order No 19	236	3,000	-	13,000	Andreyev

Balance Forward R

free balance of the clients' clearing account (in accordance with the order of priorities). In such cases the entire balance of the clearing account that is free from higher ranking claims is applied against past due interest, and the corresponding deficiency is debited to this account and credited to the account "Operating income".

15. THE VERIFICATION OF COLLATERAL, THE MEASURES
OF CREDIT ACTION, AND THE SALE OF PLEDGED
GOODS BY THE STATE BANK

When credit is granted against material commodity security, the State Bank makes both a pre-audit of the condition of the collateral when it grants the loan, and a post-audit.

The pre-audit usually consists in the verification of the collateral for the loan to be made against the certificates submitted by the firm on the balances of material commodity values. If the firm has submitted untrue operative certificates on the condition of the collateral, the bank makes a pre-audit of the collateral according to the data of the warehouse records and by means of a physical examination of the goods accepted as pledges.

A subsequent control over the collateralization of the loans granted against material commodity values, is made by a systematic audit of the pledged goods according to the operative certificates, according to the warehouse records and a physical inspection, and also according to the monthly balance sheets and accounts submitted to the bank.

The certificates on the balances of commercial values financed by the bank are regularly submitted by the firm to the bank, usually twice a month (On the 1st and 16th), and are in the same forms as those used when the loan is made (see form on page 173). In the event of the firm's failure to submit this information, the manager of the State Bank Branch may apply measures of credit action to it after 10-15 days warning. Such measures consists specifically in holding up all further credits until all necessary material has been received by the bank.

The audit of the collateral according to the data of the warehouse records at the premises of the firm, and the physical inspection of the collateral, are carried out at least once every month and a half or two months and also in all cases where any doubt arises as to the intactness of the security.

The existence of the collateral on the day of the audit is established according to the warehouse records, and any discrepancies between the data of the warehouse records and the operative certificates previously presented to the bank on the balances of goods financed are disclosed. The bank checks the collateral also on the basis of the original documents, the certificates received from the khozaschet points, and the other materail, on the basis of which the firm prepares its operative certificates on the balances of goods and materials.

Physical inspection of the collateral is usually done at the firm's premises. Spot checks are made of a number of lots of goods. Only in occasional instances is the entire mass of pledged

goods inspected. If a deficiency of collateral develops, or if the condition of storage do not guarantee the intactness of the goods pledged, an appropriate portion of them is excluded from the collateral. If as a result of mismanagement the danger of spoilage or destruction of the goods financed develops, the bank discontinues its financing against the goods in question, and advises the firm's higher-level link and the local directing organs.

The results of the audit of the collateral are reduced to writing in an instrument signed by the representatives of the firm and of the State Bank. The instrument, if necessary, also sets forth the Bank's proposals for measures to be taken by the firm to improve the conditions of storage and eliminate shortcomings of operative or warehouse accounting.

When shortages are discovered in the collateral, the State Bank calls in, before maturity, that part of the loan which proves to be unsecured. If there are no funds in the firm's clearing accounts, the unsecured indebtedness is transferred to account No 222 "Past-due indebtedness on short term credits". Persons guilty of dissipating the security are held criminally accountable.

With respect to those borrowing firms that violate credit discipline and permit indebtedness to be or become past due and unsecured, the State Bank applies the measures of compulsory recovery of the debt. In such a case, the funds in the borrower's clearing account are first of all applied to the liquidation of its past due indebtedness (as an offset, pursuant to the bank regulations). The borrower is entitled to no warning of these

charges to its clearing account.

If the firm has insufficient funds to liquidate all claims against it, the charges to the clearing account are made in the order of priority prescribed by law.

The State Bank enjoys the right of applying against past due indebtedness not only the funds at the branch where the firm has borrowed (in the order of priority established by law), but also the funds of the borrower at other State Bank establishments. Thus, for instance, a branch that finances a borrower has the right to recall the unused amounts on special accounts and letters of credit, and to apply the amount so returned against loan indebtedness.

If the default becomes long standing, so that the amounts coming into the borrowers clearing account at the bank are insufficient to liquidate all its past-due indebtedness, the bank proceeds to realize the pledge securing its loan. The borrower is warned of this.

In order to recover from the pledged goods, the bank first obtains an executory document in its favor. The firm's time note given to secure the loan to be enforced, serves as an executory document, after a notation of execution has been made on it. This notation is made by a notary's office, where the time note and an abstract of the loan account of the borrowing firm are presented. After obtaining the executory notation, the bank warns the firm of the forthcoming compulsory realization of the goods and materials specified.

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An involuntary sale of goods belonging to a defaulting firm to liquidate past-due indebtedness to the bank is carried out only on authorization of the Chairman of the Board of the State Bank. To obtain this authorization, the manager of the branch addresses himself to his Regional Office, after first having found a buyer for the goods to be realized. In his letter to the Regional Office, he sets forth all information necessary to decide the question of selling the goods, to wit: Financial data on the situation of the defaulting firm, the causes of the default, the measures taken by the bank to liquidate the debt, etc. The Regional Office itself takes steps to liquidate the past-due indebtedness, but if it does not succeed within five days in adjusting the question of liquidating the arrears, it inquires of the Chairman of the State Bank Board as to the possibility of realizing the goods and materials noted for sale. The realization of these values itself is carried out by the State Bank branch on receipt of authorization from the Chairman of the Board, transmitted through the manager of the Regional Office.

On receipt of this authorization, the branch asks the purchaser to pay for the goods. Payment is formalized by the purchaser's payment order. The amount of the order is charged to its clearing account and is credited to account No 210 "Other debtors and creditors" through a detail account of the purchaser. The amount so transferred remains in this account until the goods are received by the purchaser.

On payment for the goods, the bank branch gives the purchaser a written offer, in the name of the defaulting firm, for the immediate sale of the goods to the purchaser. After delivery of the goods to the purchaser, the amount credited to the account "Other debtors and creditors" is transferred to liquidate the past due loan. The following entries are made for this purpose: Debit account "Other debtors and creditors", credit account "past due indebtedness on short term credits".

If the enforcement extends to unpledged goods, the branch in its demarche to the Regional Office does not indicate the buyer, and the sale of such values is made after the receipt of authorization from the chairmen of the board of the State Bank, by the marshal of the court, pursuant to the legislation in force. The marshal delivers the goods and materials sold to the purchaser on receipt of advice from the branch that payment has been made therefor by the purchaser.

It must be borne in mind that under no circumstances is it possible to sell the property and material commodity values that are exempt from execution under the legislation now in force. For instance, equipment, industrial buildings and structures, dwelling and operative edifices, raw materials and fuel necessary for the operation of the enterprise, cannot be sold. Seed and agricultural inventory necessary for the fulfillment of the production plan by the farm involved, or unharvested crops, are not subject to sale.

A special procedure is applied to firms financed against

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settlement documents in transit. If the State Bank has determined that a supplier is regularly shipping goods to insolvent purchasers and fails to take decisive steps to recover their indebtedness from them, the State Bank branch that serves the supplier warns it that after twenty days it will refuse to accept bills drawn against habitual defaulters as collateral for the loan account. Habitual defaulters are known from the data of Schedule B of the collection card file for non-balance-sheet account No 435 "Settlement documents forwarded for collection", as well as from the investigations of the suppliers themselves. Purchasing firms that repeatedly delay their payments by more than 15-25 days are classified as habitual defaulters.

The bank serving the payers also takes measures to liquidate the indebtedness of slow payers to suppliers. If these measures fail to produce the desired results, the payers bank informs the banks that financed suppliers of such prolonged defaults. Such advices help to show up chronic defaulters.

The bank that finances the suppliers against settlement documents in transit verifies the bona fide commercial character of such documents. With this object, the refusals of payers to accept bills, and the recalls of bills by suppliers, are systematically observed and studied. This surveillance over non-acceptances and recalls is carried on by means of a separate registration card made out for each supplier, in which are

entered all cases of non-acceptance or recall of bills with the reasons.

The bank sets up a special control on the delivery of documents for collection by firms that violate the rules for financing and settlements (giving wrong shipping dates, violating the conditions of contracts with purchaser, etc.) For instance the bank has the right to demand the production of shipping documents, quality certificates, contracts, or other documents by which the bills delivered for collection may be shown to have been properly drawn.

When it uncovers clear abuses on the part of a supplier with the object of illegally obtaining credit against settlement documents in transit, the branch holds the guilty persons criminally responsible and stops transfer of funds from the loan account against settlement documents in transit to the suppliers clearing account. As an extreme measure, the branch may place before the Regional Office the question whether credit to the firm in question against settlement document in transit should not be entirely stopped.

The removal of firms from the list of those eligible for credit takes place in all cases on the authorization either of the Chairman of the Board of the State Bank, five days after the People's Commissar having jurisdiction has been notified, if an enterprise under Union authority is concerned, or of the manager of the Regional Office of the bank, five days after the organs under which the organizations affected is subject, if it is of re-public or local subordination.

16. POSTPONEMENT OF LIQUIDATION OF LOAN INDEBTEDNESS
TO THE STATE BANK IN RAYONS LIBERATED FROM THE
GERMAN OCCUPIERS

Pursuant to the decree No 129 of the SNK USSR of 5 February, 1943, all state and cooperative enterprises and organizations in Rayons liberated from the German occupiers are granted a moratorium on indebtedness, to the State Bank and other creditors, which originated before the occupation. This moratorium is in force until further disposition of the SNK USSR.

In connection with this, the State Bank establishments stopped withdrawing funds from the clearing accounts of such enterprises and organizations in payment of indebtedness that originated before the occupation.

The recovery of past due indebtedness from enterprises and organizations may be effectuated only from excess working capital, excluding indebtedness that originated before the occupation.

The State Bank establishments transferred all extended indebtedness on short-term credits, for all types of loans, from the corresponding loan accounts of Section VII of the balance sheet "Short-term credit and settlement operations" to a newly opened balance-sheet account in the same Section: Account No 166 "Extended indebtedness on pre-occupation State Bank loans." Overdue loans and overdue interest receivable from the above-mentioned enterprises and organizations were also transferred to this account No 166 from Section VIII of the balance-sheet

"Overdue indebtedness to the bank".

In the analytical accounting of each enterprise and organization detail accounts were opened to correspond to those on which that indebtedness was recorded under Sections VII and VIII of the balance sheet before its transfer to account No 166.

Interest on extended indebtedness is charged quarterly at the rate charged before maturity, except for items transferred from account No 222 "Overdue indebtedness on short-term credits", on which 4 percent is charged from the day of transfer to account No 166, instead of 6 percent charged on account No 222.

Interest is not charged on loans which were made on an interest-free basis.

The interest charged on extended indebtedness of firms and organizations is debited to the detail account for uncollected interest which is opened for every such customer under balance-sheet account No 166, and is credited to account No 258 "Interest accrued on extended pre-occupation indebtedness." No interest is charged on the detail accounts of uncollected interest under balance-sheet account No 166.

Customers' notes for extended indebtedness are recorded on the non-balance-sheet accounts No 402 "Notes on short-term credits" and No 404 "Collateral for special loan accounts". Such notes are kept in a special card-file.

When collection of overdue indebtedness is resumed on the instructions of the SNK USSR, all the notes previously given by a customer will be exchanged for a single demand note in the total amount of the extended indebtedness and extended interest.

Indebtedness subject to extension on balance-sheet account No 200 "Loans for various purposes" is not transferred to balance-sheet account No 166, but postponement of collection is noted on the detail account sheets under account No 200.

Indebtedness to the bank which is carried on balance-sheet account No 600 "Indebtedness of enterprises, Narkomaty, government departments and organizations" (in Section XXVIII of the balance sheet "Settlements for operations in State Bank establishments where accounting records have not been preserved, owing to the war") are transferred to balance-sheet account No 166 on application of the borrowers.

CHAPTER VII

INTER-BRANCH (MUTUAL) SETTLEMENTS

1. INTER-BRANCH SETTLEMENTS AND THEIR MEANING

Inter-branch settlements are mutual settlements between two establishments of the bank, both of which have complete balance-sheets. They originate primarily in connection with the execution by the bank of its clients' out-of-town commissions.

Inter-branch settlements make it possible for the bank to exercise the functions of the sole clearing center of the country, by accumulating all free funds, regulating the currency circulation and executing the cash aspects of the state budget.

The most important operations performed through the inter-branch transfers [MFO] are as follows: Receiving payment and transferring it to an out-of-town supplier, paying a supplier on a letter of credit for an out-of-town buyer, transferring funds of a firm to other cities, collections for social insurance, state budget, trade unions, Nksvyazi, NKPS, and savings banks, distribution of funds for construction, settlements for replenishments of the cash supplies of a bank and for withdrawal of excess cash from its cash supplies, and, finally, accumulating the profits of the bank itself. It is clear from the foregoing that the MFO accounts are used primarily to hold temporarily those funds of bank clients that have arrived at certain points and have not yet been credited to accounts at other points (amounts in transit), and that the interrelations between the branches and the Head Office with respect to decentralized resources (funds of

the bank and note circulation) are adjusted through the MFO accounts, as are these interrelations with respect to the redistribution of funds within the State Bank system.

The correct organizations and accounting of inter-branch transfers is of great importance both for the bank and -- what is still more important -- for the entire national economy served by the bank. A badly installed system of document circulation, or an unsatisfactory accounting and control for inter-branch transfers unavoidably delays the delivery of their funds to the clients and involves inaccurate crediting of funds to their accounts. This is unavoidably reflected in the financial condition of the firms, and, in the last analysis, results in losses to the bank. Inefficient accounting and control of inter-branch transfers considerably increases the opportunities for abuses.

There are always two branches that participate in inter-branch transfers: One of them initiates the operation, let us assume for instance, that it receives payment and credits it to the account "MFO initiated" and makes the initial entry on MFO. The other branch responds to the first one and makes the contra entry by debiting the account "MFO Contra". A special document, the advice, is used as a posting medium for this Contra entry to the MFO accounts. The advice is sent by the branch that initiates the operation (for instance by the supplier's bank), to the branch that makes the contra entry (the bank serving the supplier or, in general, the payee). An inter-branch transfer which is credited in one branch is thus reflected in the other (contra) branch as a debit to the mutual settlement accounts, and conversely. Since the initial and contra

entries are made at different times and in different places, especially careful control over the agreement of the MFO entries in the two branches.

The scrutiny and verification of the identity between initial and contra entries is called reconciliation, [Kvitovka] and the different method of organizing it distinguish the various systems of MFO accounting.

Before taking up these systems of accounting, we shall still dwell on the importance of the accounts reflecting inter-branch transfers in the balance-sheets of the individual branches and in the consolidated balance sheet of the bank. For each individual branch, inter-branch transfers may represent either a source of funds or a investment of them, since each branch, in its interrelations with other branches, pays out and receives various amounts on their account.

If the payments exceed the receipts, then the inter-branch transfers, resulting as they do in a net withdrawal of funds from the branch, are shown in the resources. If, on the other hand, the receipts for the accounts of other branches exceed such payments, then the inter-branch transfers will serve as a source of funds for the branch. Not only do the resources or liability balances on MFO account differ among different branches, but even in the same branch, the character of the balances on these accounts may change from time to time, depending on the economics of the Rayon served by the branch.

The accounts that reflect interbranch transfers are alternatively resource or liability. The balances of the detail MFO accounts make the control account in the balance sheet of the individual branch either resource or liability. These are just as real

component parts of the balance sheet as the other asset and liability items, and can therefore not be omitted. In the consolidated balance sheet of the bank however, which includes all of its establishments (the Head Office and all branches), when all orders of the single branches have been received and executed by other branches, the balances of the MFO accounts must be equal on asset and liability sides, mutually balancing each other and forming an internal balance. When the resources and liability balances of the MFO account in the consolidated balance sheet are equal, they may be completely excluded, without disturbing the equilibrium, since they have no real meaning. In this case, they show only the amounts redistributed within the State Bank system, but represent neither withdrawal nor placement of the funds which are completely reflected by the other items of the balance sheet. In view of the fact, however, that there are always MFO items in transit as items entered only by the initiating branch are termed, there is always some discrepancy between the balances of the MFO resources and liability accounts in the consolidated balance sheet. This discrepancy is usually an exaggeration of the liability side and shows the amount of the funds actually employed in MFO.

The branch initiating an MFO transaction is conventionally termed the A branch, while the branch executing the order of another branch is termed the B branch. Obviously each branch in different cases acts as either an A branch or B branch. But for the sake of greater clarity we shall consider separately the initial and contra turnovers in the mutual settlements between branches.

Each branch is assigned its own five-digit transit number by the

head office. This number must be shown beside the designation of the branch on all documents that concern interbranch transfers.

2. CENTRALIZED AND DECENTRALIZED MFO RECONCILIATION

The branches do not carry detail accounts for each other, but instead make all of their mutual settlements through the account of the head office, to which they report in a notification (advice) drawn up and sent out by them, with precisely what branches transfers have occurred. The reconciliation of the initiated turnovers with the contra turnovers may then be organized in the Head Office itself (and at one time it was). In this case we have centralized reconciliation.

There are many advantages in such a system. It makes it possible to organize the reconciliation with the help of machines, and to concentrate the work in a single place, where all discrepancies can be cleared up; the branches answer inquiries more quickly and more carefully if they are from the Head Office and the instructions of the Head Office carries more authority for the branches. But this system has its negative sides as well; it is cumbersome, reconciliation is unavoidably delayed, and the work-load is improperly distributed between the center and the periphery, while the center is overloaded with reconciliation work, the branches are entirely freed from it. The inadequacy of the centralized system of reconciliation becomes more and more pronounced with the large number of branches and transfers, with the immense distances between the branches, and with the not-always efficient work of the organs. It must be remarked, that this system did not yield satisfactory results, and throughout the

period when it was in use, the interbranch transfers were never reconciled even during a single year.

A decentralized reconciliation is also possible. Under it, each branch on receiving from the contra branch a confirmation of the advice sent to it, reconciles its own initial entries and make sure that they have been correctly reflected by the other branch. The positive side of this system lies in the fact that operation and reconciliation are brought close together, in the branches' interest in the accurate execution of their orders and, finally, in the distribution among all the branches of the large amount of work involved in their reconciliation. But it also has its negative sides: Since the work of reconciliation is scattered over the whole network, the possibility of using the prevailing great productivity of machines is excluded; the disagreement of the amounts is likewise scattered, and this exceedingly hinders and delays their adjustment. It is for this reason that this system, used for a short time by the State Bank also failed to yield a satisfactory result.

3. THE PRINCIPLES OF THE CURRENT MFO SYSTEM

The current system of MFO accounting and reconciliation combines the positive sides of the centralized and decentralized systems. It is based on the centralized reconciliation in the branches and the centralized supervision over this reconciliation on the part of the Head Office, which affords substantial assistance to the branches by keeping detail accounts for them on machines. This system lead to a positive result and assured the possibility of a complete annual check and reconciliation (since 1933) of initial and contra interbranch transfers.

This system consists in the following:

1. Each transfer initiated, which affects another branch, is embodied in a document of which the forms prescribed in strict detail. One copy remains in the initiating branch, a second is sent to the mechanized accounting shop (or factory) at the Head Office, while the remaining one or two copies are used in different ways, depending on whether the order is transmitted by mail or by telegraph to the other branch.

2. The branch that makes the initial turnover must under all circumstances receive a confirmation of the acceptance and execution of the order from the contra branch. This confirmation is reconciled by proof against the file copy of the order. The reconciliation is of operational character and is not accompanied by bookkeeping entries.

3. The branch making the contra entry, ie., the one executing the order, checks its own entries after a short time, and reconciles it with the tabulogram [machine run] received from the head Office, which consists of a detail account of all the contra turnovers that should have been made in that branch on the basis of the orders given to it by all other branches. This reconciliation is made by a bookkeeping procedure that separates the reconciled turnovers, which are identical with those shown by the detail accounts of the Head Office, and from the unreconciled contra turnovers.

4. The Head Office (Factory of mechanized accounting--FMU) prepares the detail accounts of the branches for both initial and contra turnovers on the basis of its copies of the advices or all initiated transfers, which are regularly sent to it. The Head Office sends the detail accounts of the branches making contra

Figure No 11

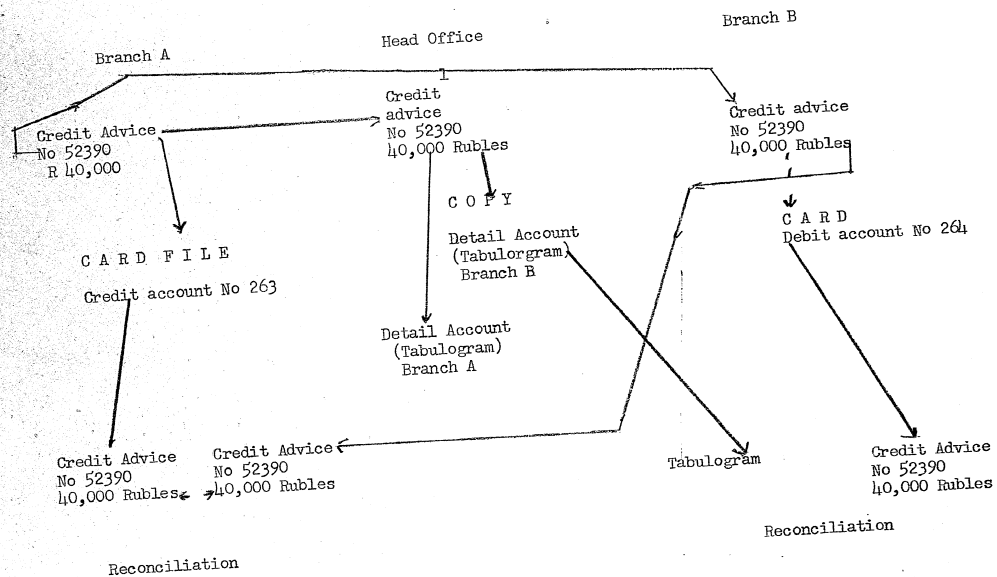


Figure 11 (p. 214) General Scheme of Document Circulation of a Mail Credit Advice.

turnovers to these branches themselves for reconciliation with the advices filed and entered by them, and it follows up their reconciliation.

5. In the balance sheet the initiated turnovers are distinguished from the contra turnovers, and the latter in turn are divided into separate categories: identical with Head Office tabulogram; unreconciled; and unadjusted. There are thus a number of alternatively resource and liability accounts in the balance sheet to reflect the contra interbranch transfers, depending on the stage of their reconciliation.

6. A complete reconciliation of all initial and contra entries is made as of 1 January of the new year and is reflected in the special accounts on the balance sheet which are opened at the beginning of each year.

The general scheme of document circulation for a mail credit advice is in the following form:

4. MFO DOCUMENTATION AND DOCUMENT CIRCULATION

MFO documentation and document circulation are of decisive importance for the correct accounting and reconciliation of the entries on the corresponding accounts. Fanfolds of cards are prescribed in definite forms, manufactured at Head Office and sent out to the localities for use in formalizing interbranch transfers. In order to assure uniformity and eluminate confusion, precise compliance with the purpose of the fanfolds and the separate forms thereof is categorically required. Under no circumstances may one be used for another. MFO cards are safeguarded as documents of strict accountability. A rigid discipline with respect to documentation and document circulation is most essential, for any inefficiency allowed by the initiating branch is inevitably reflected at the contra branch and the head office. It is obvious that all copies of the cards in a single fanfold must be entirely identical, since they are only different copies of a single document. The initiating branch that prepares and sends out MFO documents, must follow this up with particular care.

According to the nature of the operations reflected by MFO and the method of their transmission, the following fanfolds of documents are issued:

Mail:

Credit advices	4 copies
Debit advices	4 copies

Telegraphic:

Credit advices	3 copies
Debit advices	3 copies

Credit advices, both mail and telegraphic, predominate; while debit advices are less generally used. This is explained by the fact that the principal form of settlement, as we have already seen, is by acceptance, and that settlements between branches under this system are initiated by the initial credit entry of the branch serving the supplier. Debit transfers arise in connection with payments under letters of credit, withdrawal of currency from circulation, supply of the branches with various materials, etc.. A transfer is considered credit or debit, as the case may be, if it was credited or debited to the account of interbranch transfers initiated by the branch that initiated it.

The copies of mail advices have the following purpose:

The first example of a credit or debit advice, formalized by signatures, seal and, where necessary by the transfer code word, is dispatched to the contra branch B; this copy constitutes the original order issued to branch B, and it remains there.

The second copy is a confirmation of acceptance of a debit or credit advice, and is sent to branch B together with the first copy. After branch B has made the contra entry, this copy is formalized and returned as a confirmation to branch A, which also uses it for reconciliation.

The third copy is the accounting (debit or credit) card, and is periodically dispatched to the factory of mechanized accounting at the head office where it serves as a posting medium for preparing the detail accounts of branches A and B.

The fourth copy is the copy of the (debit or credit) advice,

and remains in branch A, where it is placed in the card file of MFO initiated. This copy is then reconciled with the confirmation received from branch B.

The destination of each copy is indicated on it and, as we have seen, cannot be changed.

We present an example of a mail credit advice (form 37, page 216). The mail debit advice is on the whole analogous to the credit advice. They are printed on paper of different colors to distinguish them.

Telegraphic advices have no second or confirmation copies; the first copy is left at the telegraph office. The remaining copies are used as with mail advices.

A sample of a credit telegram is given on page 217.

Since branch B must confirm receipt of an MFO telegram by it, it draws up a supplementary half-set, consisting of two cards: The first of them is placed in the MFO-contra card file as a posting medium for the contra entry, while the telegram received (on the blanks of the Nksvyazi) are filed with the documents of the day; the second copy is a confirmation of the acceptance of the telegraphic order and is sent to branch A for use in reconciliation.

Thus with a telegraph order, the fanfold of cards filled out by branch A is supplemented by the half-set filled out by branch B (as though branch A were doing it), in exact correspondence with the telegram delivered to it. It is clear from this that branch B fills out the half-set of cards with the same number as branch A (the

number indicated by branch A at the end of the telegram), and in the latter's name, i.e. in exactly the same way as though these cards had also been filled out by branch A. We give an example in form 39 of the contra entries to the credit telegram.

[See following pages for forms 37, 38 and 39]

267-A

Form 37 (p. 216)

Date of Inquiry
4

K-52

Remains in Branch A

Dispatched to FMU of Head Office
with Report Sheet Form 3062
Dispatched to Branch B and after
Formalization by latter is returned
to Branch A

Copy of credit advice No. 42526

State Bank A State Bank B

Report

Credit card No. 42526

State Bank A State Bank B

Contra Serial Confirmation

No. of Branch B of acceptance of Credit Advice
No. 42526

State Bank A State Bank B

1 Contra Serial (Cr. @ 263); (Dr. @ No. 264)
No. of branch B

Credit Advice No. 42526

State Bank A State Bank B

V.S. Kolyvan' Kray Kominternovsk Branch
Novosibirsk Oblast In City MoscowKray
Oblast

No. of Branch A No. of Branch B

22422 8 February 20105
1945

194-

Under instructions Please credit administration
of Kolyvan' Sel'sovet of Artistic Production
Enterprise "Moskhudozhnik"

_____ @ No. 01103 _____ @ No. 150025

On Contract No.839 Reconciled with Tabulogram

Date _____

One Thousand Six
Hundred Fifty Rubles

R. 1650

(In Words)

(Amount in figures)

Annex

Check Mark
of Branch B(Stamp & Signatures
of Branch A)

Kolyvan' Branch

STATE BANK

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267-B

Form 38

Copy

Of Credit Telegram 91048

K-32 Contra
Credit Card

For Telegram 91048

From... Via

Amount Paid R.K K. No----- Transfer
No. 91048

...Words....Date...H....M Date M---M

L. Check

Order ---- I

Prov. No.---

Total
Received

Transmitted

Remains in Branch A

Sent to FMU of Head Office of Bank

CR. Transfer
Sent To
Arranged with Telegraph
Office
Nksvyazi

Voronezh Bank

Key Please credit 150181 voronezh
Obleteatr Muzkomedi i five thousand rubles
per contract Oblgosfilarmoniya
910485,000
Amount in Figures

No. Of Branch A 15501	Date 9 March 1945	No. Of Branch B 11101	Stamp and Signatures of Branch A of State Bank Kursk Oblast Regional Office
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FORM 39

Contra Entries

CONFIRMATION OF ACCEPTANCE

No. of Branch B

of Telegraphic Credit

1829

Order

No. 91048

Contra Entries
No. of Branch B
1829Contra Entry against
Credit Telegram
Dr. @ No. 264

No. 91048

Drawn by Branch B
and Dispatched to Branch ADrawn by, and Remains in
Branch B

1 Voronezh Bank
Key please credit 150181 Voronezh Obltatr Muzkomedi five thousand
Rubles per contract Oblgosfilarmoniya 91048

5,000
(Amount in Figures)

State Bank A

In Kursk

Kray, Oblast

15501 0903 1945

No. of Branch

Signature of Branch B

Voronezh Oblast Regional Office
of State Bank

State Bank B

In Voronezh

Kray, Oblast

11101 1003 1945

No. of Branch

Reconciled with Tabulogram

Date

We next take a mail transfer order as an example. After charging the amount to be transferred to the clearing account of the transferor, and checking the correctness of this charge, the auditor draws a mail credit advice. All of its requisites are checked and signed by persons having the right of second and first signatures, who must then, after assuring themselves of the complete identity and distinctness of all four copies, legibly sign their family names on the fourth copy so that it can readily be established who is responsible for drawing this card.

All four copies of the checked and signed advice are turned over to the transfer code group, which then forwards it to the MFO group. After the accuracy of the drafting and formalization of the first two copies has been checked, the first two copies are detached and sent to the mail room, for dispatch to branch B as registered State Bank mail. The last remaining copies of the cards (the third and fourth) remaining in the MFO group, are sorted at the end of the day into debit and credit, mail and telegraphic. The debit and credit cards are then separately footed, using the third and fourth copies for this purpose.

A debit transfer is handled analogously.

The total of the transfers initiated is proved against the general journal. The debit and credit cards are made up in two separate wrappers, on each of which is written the name and transit number of the branch, the date, number of pieces and total amount of the cards. Within the prescribed time limit the wrappers are dispatched with a special report sheet to the FMU at the Head Office. The fourth copies, arranged in the order of ascending

numbers, is placed on the left hand side of the debit or credit card file, as the case may be, of account No. 263 "MFO initiated".

With that, the operative work of branch A is completed.

Two card files, a debit and a credit, are kept for account No. 263. Each file is constructed according to the following scheme (the numbers indicate the dates of the operations:)

CREDIT ACCOUNT "MFO Initiated"

UNRECONCILED
31
29
28
11
11
11
11
11
4
3
2
1

RECONCILED

Lengthwise the card file is divided into a right and left side, and crosswise into 26 to 27 moveable parts (slots) corresponding to the number of working days in the month. The unreconciled cards are on the left side while the reconciled cards are on the right.

THE FORMALIZATION OF THE CONTRA TURNOVER

All incoming MFO advices in branch B are checked, registered in a special journal (serial number, transit number of branch A, advice number, amount,) and a half set of cards is made out for the telegrams (see page 218.) The accuracy of the transfer code word is specially checked. Advices with the right code word are posted

to the corresponding customers' accounts and general journal in correspondence with the account No. 264 "MFO contra". The first copy of the advice as a posting medium is placed at the end of the day, after checking against the general journal, in the card file for account No. 264, which is analogous to the card file for No. 263; while the second copy, formalized by the signatures and seal of branch B, is returned to branch A as confirmation of the acceptance and execution of its order. The collection bills or orders attached to the advice are turned over to the collection group, to be charged out of non-balance-sheet control account No. 435 "Settlement documents forwarded for collection" and notation on the documents kept in the card file for this account.

The schedule-journal mentioned on page 123 is drawn up for the documents forwarded with the MFO advice and transferred to the collection group.

In order to reduce the number entries in the detail accounts of clients and speed up the work, the incoming advices may be arranged by clients, a schedule may be drawn and the totals posted to the clients' accounts. Two summary orders are drawn for the aggregate of all advices entered during the day: One for debit, the other for credit, to account No. 264.

There are two card files for account No. 264—one debit file and one credit file. The advices are placed in the left side of the card file in question, in ascending order of the A branch transit numbers, and, within each such branch, in ascending order of advice numbers. The number of pieces and amount represented by the cards in the separate compartments of the card file, and the

process of reconciliation, are shown on a special checkerboard sheet for each card file (see page 225, form 42).

In the large branches, the processing of MFO initiated may be concentrated in a single group or assigned to a special member of each group or brigade. Contra MFO are usually centralized in a single group.

5. THE TABULOGrams OF THE FACTORY FORMECHANIZED ACCOUNTING.

The factory of mechanized accounting of the Head Office (FMU) makes out detail accounts (tabulograms) by A and B branches, using the third copies of the cards for "MFO initiated", entries, received from the branches, as posting material.

The FMU insists first of all on regular receipts of accounting data from the branches, registers it, and complains to the branches about any delay in that material or any inaccuracy in it. After checking this incoming material, a card is punched for each advice to show all data needed for future work, by means of holes located at certain places on the card, as may be clearly seen from the schema on page 58.

The punched cards are first verified and are then run through the tabulators to obtain the total for each branch. As a result detail accounts (tabulograms) of all A branches are obtained, which are proved against the report sheets of each branch and with the summary data on transfers initiated.

The tabulograms by A branches are prepared only for control purposes and are needed only by the FMU itself. When they are proved

against the accounting data of the branches themselves, they guarantee the completeness and accuracy of the cards punched. The punched cards are next sorted and tabulated by B branches. As a result, tabulograms by B branches are obtained separately for debit and credit items. This tabulograms are produced with copies, and are dispatched to the B branches for reconciliation with the original documents, that is, with the first copies of the advice. Before sending them out, the FMU checks the identity of the totals of all tabulograms for A branches with those for B branches.

We present an example of a tabulogram, confining ourselves, to save space, to a credit tabulogram.

Form 40

TABULOGRAM
FOR GREDT (TELEGRAPHIC AND MAIL) ADVICES

Date processed by F M U	Transit No. of Branch B	Normal or Reversing, Mail or Telegraph	Transit No. of Branch A	Date of Initiating Entries	Nos. of Tabulograms and Advices	Amount	Number of Cards
1	2	3	4	5	6	7	8
1109	23,501	-	0 2	-	2,119	-	-
1309	23,501	3	25,847	0,409	42,370	180,000	1
1309	23,501	3	15,546	0,709	56,793	420,000	1
1309	23,501	5	13,152	0,209	38,791	128,000	1
1309	23,501	5	13,123	0,509	82,417	295,000	1
						1,023,000	4

The debit and credit tabulograms are distinguished only by the fact that the indicating number on the first line of column 6 begins in debit tabulograms with digit 1 (debit), while in credit tabulograms, it begins with the digit 2 (credit).

In column 1, on the first line, the date of the preceding tabulogram is shown, while the other lines show that of the given tabulogram. Column 3 gives the characteristics of each advice: Normal telegraphic advices are designated by the digit 3, normal mail advices by the digit 5, reversing telegraphic entries by the digit 7, and reversing mail entries by the digit 9. Column 4 shows the transit numbers of the A branches initiating the respective transfers. A two-digit number of internal significance for FMU is shown on the first line of this column. The first line of column 6 shows the number of the tabulogram, while the other lines show the advice numbers. Columns 7 and 8 show the amounts of the advices and the number of cards respectively.

6. MFO RECONCILIATION

The incoming confirmations are compared by branch A with the fourth copies of the advices held in the card files of account No. 263. If they are found identical, the fourth copy is marked or stamped "Reconciled" and the date. Both copies of the reconciled advices are arranged on the right side of the same card files. So that the course of the reconciliation of the initial entries may be followed, a staffel of the number of pieces in each card file for account No. 263 is kept.

Form 41

CARD - STAFFEL

Removement of advices and confirmations for debit
credit

CARD-FILE FOR ACCOUNT "MFO INITIATED".

Date	Q U A N T I T Y		Remainder of Unreconciled Cards	Remarks
	Incoming Cards	Confirmations Received		
--	---	---	352	
1	70	50	372	
2	40	10	402	
3	102	44	460	

Branch A must insist on the timely receipt of confirmation and must send inquiries about them to the B branches after the lapse of the round-trip mail time plus five days.

The reconciliation of contra entries consists of the comparison of each line of the tabulogram received from FMU with the first copy of the corresponding advice (used as posting material for the contra entry), which is held in the left side of the card file for account No. 264, and also in the determination of the amounts shown on the tabulogram for which contra entries have not been made. First of all the accuracy of the tabulogram itself must be convincingly shown, that is, it must be established whether it is column 2), whether there are no breaks in the numbering of the tabulograms, etc.

The process of reconciliation consists in finding in the left side of the card index for account No. 264, the cards shown in the tabulogram; in entering the sum total of the reconciled card for each compartment of the card file in a special checkerboard sheet, in transferring such cards to the right side of the card index, and in formulating the reconciliation in a bookkeeping entry.

To find the card as quickly as possible, it is necessary to determine the date of the contra entry by starting from the dates of the initial entry shown in the tabulogram and adding the mail transit time. Thereby the compartment of the card file in which the card to be reconciled may be found, is determined.

We give an example on page 225 of the checkerboard sheet for the debit card file of account No. 264. It reflects the course of the reconciliation of credit advices. The same sheet is kept for

the credit card file of the same account i.e., for the reconciliation of debit advices.

The checkerboard sheet is divided into three parts. The first covers additions to the card file (column 1 and 2); the second covers reconciled advices (columns 3 - 29); and the third covers the balance of unreconciled advices. The concluding (totaling) card of the sheet shows the amounts and number of pieces of the advices transferred to account No. 236 "Amounts unreconciled per Head Office entries (second line), as well as those subsequently reconciled and removed from this account or reversed (fourth line). The advice cards, reconciled through account No. 266 or reversed or removed from account No. 264, are shown in the checkerboard sheet by the sign "b t" (without tabulograms.) Each line of the sheet reflects the number and amount of the cards of a definite compartment of the card index and the course of reconciliation of these cards.

The total amounts of the tabulogram regardless of whether it has been reconciled in full or in part, is entirely reflected in account No. 265 "Settlements with the Head Office for contra MFO". There should thus be no difference between this account and the tabulograms. In other words, account No. 265 precisely reproduces, at FMU, the condition of the account of the branch involved on contra MFO.

We now give examples of the bookkeeping entries that reflect the result of reconciliation.

1. 35 advices for 150,000 rubles are shown in a credit tabulogram. Three of these advices, totaling 31,000 rubles, did not appear in the debit card file of account No. 264.

The following account distribution is drawn:

Debit account No. 265 "Settlements with Head Office on contra
MFO (of current year) 150,000 (35 advice)
Credit account No. 264 "MFO contra" (of current year) 119,000 (32 advice)
Credit account No. 266 "Amounts unreconciled, according
to Head Office entries". 31,000 (3 advice)

2. 8 advices, totalling 32,000 rubles, are shown in a debit
tabulogram. Two of these advices, totalling 5,000 rubles, did not
appear in the card file of account No. 264.

The following account distribution is drawn:

Debit account No. 264 "MFO Contra" (of current year)... R. 27,000 (6 advice)
Debit account No. 266 "Amounts unreconciled,
according to Head Office entries"R 5,000 (2 advice)
Credit account No. 265 "Settlements with Head Office
for MFO contra" (current year).....R 32,000 (8 Advice)

It is necessary to take measures to clear up the items carried
to account No. 266. Finally either branch A sends a duplicate advice
for the item no appearing on the reconciliation, or else it is found
that this item was in fact, properly withheld by branch A, and con-
sequently the FMU erroneously included it in the tabulogram.

In the latter case, FMU will include this transfer in the
branch's next tabulogram as an adjusting entry. If it is a debit
transfer that must be corrected, than the adjusting entry is included
in the credit tabulogram, and conversely.

If a duplicate advice is received from branch A in response to
branch B's inquiry, the, after checking it, it must be entered in
the same way as though the original advice had been received, and

then the duplicate advice sent in must be reconciled, without reference to the tabulograms, with the corresponding amount in account No. 266. Assume, with reference to the first example, that we have received duplicate credit advices for 31,000 roubles. First we check them and enter them, making the postings:

Debit account No. 264	R. 31,000
Credit "Customers' Clearing Accounts"	31,000 R.

We then make a second pair of entries for reconciliations of this amount:

Debit account No. 266	R. 31,000
Credit account No. 264	R. 31,000

In consequence this amount is balanced on both accounts No. 264 and 266. If the FMU, after the matter is cleared up, forwards a correction tabulogram, branch B will make, on that basis, an entry opposite to the one that originally set the amount up on account No. 266, for instance:

Debit account No. 266	R. 31,000
Credit account No. 265	

These amounts are shown in the concluding portion of the checker-board sheet, in the column for the date in question.

Each line of the tabulogram is marked to indicate either reconciliation or transfer to account No. 266.

An analytical journal (termed "Collective detail account") is kept separately for debit and credit on account No. 266. Each item unreconciled with the tabulograms is entered with all necessary details in this journal, and subsequently the date of its reconciliation or reversal

is noted there. Account No. 266 is broken down in the balance sheet into its resource and liability sides.

7. REPORTS ON MFO TRANSACTIONS

The branches send FMU report cards of interbranch transfers (the third copies of the advice) together with report sheets in the form shown on page 226.

This report sheet is prepared in duplicate. It is sent every day to FMU by large branches, every 5 days by medium sized branches, and every 10 days by the small ones. As may be seen from the form itself, it shows separately the number and amount of debit and credit transactions since the first of the year, besides the other data. The FMU compares the totals of its own tabulograms of the initiated transactions of the branch with these data.

In addition all branches prepare monthly abstracts of the MFO account section of their proof sheets. The form of this abstract is shown on page 227.

See following pages for forms 42 and 43

FORM 42

Checkerboard-Sheet for Debit Card-File of Account No. 264 "MFO INITIATED"

For September 1945

Additions to Card File		Reconciled with Tabulograms (Reconciled through Account No. 264 or reversed)									
Month	Day	Number of Cards	Amount	Dates Reconciled (and charged out of a/c)						Total Reconciled or Reversed during accounting month	Remainder of Advices not Reconciled as of 1 October
				1	2	3	Remaining Days	31			
				No. Amt	No. Amt	No. Amt	No. Amt	No. Amt	No. Amt	No. Amt	No. Amt
				3	4	5	6-27	28	29	30	
August	17	4	24,000	2 14,000	2 10,000				4 24,000		
	22	12	42,000		4 15,000		8 27,000		12 42,000		
	28	54	201,700			14 60,700	40 141,000		54 201,700		
September	1	50	160,200			10 60,200	40 100,000		50 160,200		
	2	59	427,000				57 287,000		57 287,000	2 140,000	
	3	47	297,800				41 283,000		41 283,000	6 14,800	
	4	72	597,400				65 572,400		65 572,400	6 18,000	
		e.t.c.					1 7,000 "b/t"		7,000		
	28	59	377,900							59 377,900	
	29	31	250,000							31 250,000	
TOTAL	388		2,378,000	2 14,000	6 25,000	24 120,900	251 1,410,400		283 1,570,300	104 800,700	
									1 b/t 7,000	b/t	
Removed to account No. 266						3 31,000	2 26,000		5 57,000		
Total Per Tabulograms				2 14,000	6 25,000	27 151,900	253 1,436,400				

Reconciled through account No. 266
or reversed

2 14,000 6 25,000 24 120,900 252 1,417,400 1 7,000

☒ To save space we show in a single column, 6-29, all the remaining days. In actual practice there is a separate column provided for each date.

FORM 43

REPORT-SHEET No. 202

Date of Arrival State Bank
Transit No. 23513 on account No. 263 "MFO INITIATED"
at FMU

Date
Processed
by FMU

At Yel'tsa For 3 September 1945

	Debit		Credit	
	No. pieces	Amount	No. Pieces	Amount
1. Balance As of 0309 per last report sheet,				18 297 630 29
2. Total turnover for Reporting period 4		78 821 57	28	3 205 493 72
3. Balance forward to 0409 1945				21 424 802 44
4. Turnover since Beginning of year	185 2 594	780 40	502	24 019 082 84

The cards hereto annexed
agree with the data of this
report sheet.

Proved against proof sheet:

The Chief Bookkeeper
(Signature)

The MFO Employee (signature)

Note: Show reservations and
explanations on the back
of this sheet.

Filled out in two copies; one sent to FMU at Head Office,
The other retained at the Branch

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The figures for this abstract are taken from the branch's monthly proof sheet, and both abstract and proof sheet are sent on the 5th of each month to the Regional Office, which checks the abstract against proof sheet, certifies the abstract to be correct, and sends it to FMU, which uses it to prove the turnovers and balances on MFO accounts.

Finally, all branches send their Regional Offices monthly schedule sheets giving detailed breakdowns (separately for debit and credit) of accounts No. 266 and 225, and of the amounts on accounts No. 263 and 264 which have been delayed in reconciliation. The figures for these sheets to elucidate the balances of accounts No. 266 and 225 are taken directly from the journals for each side of these accounts, and all open amounts in such journals are shown on the sheets. But the sheet for account No. 269 includes only the amounts of the initiating entries during the preceding months -- for instance, the August sheet shows only the advice dated up to 30 or 31 July. The sheet for account No. 264 includes only the amounts of those initiating entries which were not reconciled within two months of the date of the contra entries. From these sheets the Regional Offices keep track of the MFO operations of their branches.

The branches prepare monthly inventories of the balances of unreconciled advices in account No. 264 (separately for debit and credit); these balances must agree exactly with the figures in the last column of the corresponding checkerboard sheet. The agreement of the number of unreconciled initial advices (account No. 263) with the data in the staffel presented earlier in this chapter (section 6) is also checked. The result of the verification is

embodied in a formal audit certificate.

As the initial and contra turnovers are completely reconciled, the cards are withdrawn from the file and bound together, either by days of entry (in the large branches) or for the entire month. The tabulograms, arranged in ascending order of numbers, are bound by months.

[See following page for form 44]

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FORM 44

STATE BANK USSR

Pursuant to Decree No. 2334 Dated 5/10/1934 of SNK. USSR
Approved by Decree No. 1453 dated 25/12/1934 of TsunkhuCity Yelets
Kray Orlovsk
OblastIs sent to Regional Office having jurisdiction for audit
and forwarding to accounting factory at Head OfficeDate Received at
Accounting Factory

No. 23513

Transit Number

EXTRACT FROM PROOF SHEET FOR ACCOUNTS
OF SECTION XVIII OF BALANCE SHEET
for August 1945

Balance Sheet Account No.	Balance as of 1 August		Turnovers during Reporting Month		Balance as of 1 September	
	Resources	Liabilities	Debit	Credit	Resources	Liabilities
263	58,000	—	1,500,270	35,700,270	—	34,142,000
264	280,000	—	2,585,000	95,000	2,770,000	—
265	4,270,390	—	22,380,670	1,800,500	24,851,010	—
266	44,000	12,000	12,000	64,000	—	20,000

Total entries to account No. 265 since first of year: Dr. R. 937 428 510-97 Cr. R. 912 577 500-97. Following Tabulograms processed for account No. 265: Debit, No. 1162 to No. 1187 inclusive; credit No. 2167 to No. 2192 inclusive. The intermediate tabulograms No. 1185 and 2191 were not received.

On account No. 266 as of 1 September remain -- Debit advices, 1 credit advices.

NOTE: If adjusting entries have been made in account No. 265, the appropriate reservations and explanations must be entered on the back of this sheet

Stamp of Orlovsk oblast Regional Office
Regional Office Transit No. MFO 23501

The Chief Bookkeeper (Signature)

The above entries have been proved against
the branch's proof sheet

5 September 1945 Signed: The Chief Bookkeeper

8. CORRECTION OF ERRORS IN MFO

Since all initial MFO turnovers must finally be reconciled at the branches with the FMU tabulograms, the adjustment of possible errors becomes especially important. Errors may appear in the initial entry, in the address of the advice, in the contra entry, and in its reconciliation. In correcting errors in the initial turnovers, it must not be forgotten that every initial entry is included in the tabulogram and is thus reflected in the reconciliation work at branch B. If an advice in a smaller amount has been sent by mistake, then the correction consists in preparing and dispatching a supplementary advice. On the other hand, if an advice has been sent for a larger amount than it should have been, a telegram cancelling the erroneous advice must be sent to branch B. If the erroneous advice was telegraphic, so that there is danger that branch B can no longer effectuate such cancellation, a provisional entry must be made in accordance with the erroneous advice and branch B simultaneously requested by telegraph to return the excess amount credited to it.

We give an example. A credit telegram is sent for 50,000 rubles instead of 5,000 rubles, while only the correct amount of 5,000 rubles is entered in the journal-ledger. The difference between the balance-sheet entry and the credit telegram sent -- 45,000 rubles -- is entered as follows: debit account No. 210 "Other debtors and creditors"; credit account No. 263 (of course, this time without drawing an advice); and branch B requested by telegraph to return the excess of 45,000 rubles credited to it. When a credit advice for this amount is received from branch B, this 45,000 rubles is thus withdrawn from account No. 210.

Incorrectly dispatched advices, i.e. those showing the transit number of another branch instead of the addressee's number, are rerouted without book entries. Advices properly addressed to a given branch B, but with a content that does not concern it (for example, containing instructions to credit an amount to a clearing account unknown to branch B), require a contra entry to correspond to account No. 225 "Unadjusted MFO items", for which an analytical journal is kept (separately for debit and credit). This account is broken down on the balance sheet into debit and credit. Each item posted to this account must be cleared up by means of inquiry.

If the required explanation is not forthcoming from branch A, in spite of repeated inquiry, the amount shown on account No. 225 is returned to branch A by an initial entry (in our example: debit account No. 225, credit account No. 263). Finally, if the advice sent concerns an account kept in another branch (and it is known what branch) then, for example, the following contra entry is made for the credit advice: debit account No. 264, credit account No. 263. Thereby the amount is redirected to the branch where the account is kept. In a word, branch B must make a contra entry in all cases where it receives an advice properly addressed to it, so as not to delay the normal order of transit and reconciliation of interbranch transfers.

The correction of erroneous contra entries and of errors in their reconciliation concerns neither the A branch nor FMU, and is made in the ordinary course of business.

9. STRIKING THE COMBINED MFO BALANCE

We have seen that interbranch transfers are, synthetically, recorded on the following accounts, which are alternatively resource and liability:

account No. 263 "MFO Initiated (current year)";
 account No. 264 "MFO Contra (current year)";
 account No. 265 "Settlements with Head Office on Contra MFO
 (current year)";
 account No. 266 "Items not reconciled per Head Office entries
 (current year)".

While the initial turnovers are posted at branch A to the first of the above accounts, where they remain even after reconciliation, the contra turnovers at branch B pass through several stages, which are reflected on various balance-sheet accounts. All the contra entries, from the moment of their completion down to their reconciliation, pass through account No. 264. The entries in this account are thus of a provisional nature. The reconciled turnovers are transferred from account No. 264 to account No. 265. The entries to account No. 266 are likewise provisional for when the items carried on it are cleared up, they are removed from the account. Contra entries that have passed through all stages, i.e. have been reconciled with the tabulograms, can only be on account No. 265. Consequently, when all the contra entries have been entirely reconciled with the tabulograms, accounts No. 264 and 266 will prove to be closed, and the turnovers between the branches will be reflected by only two accounts:

at the A branches, by account No. 263 "MFO Initiated";
 at the B branches, by account No. 265 "Settlements with Head
 Office on Contra MFO".

Such a condition of the interbranch transfers is usually attained at the beginning of the year (as of 1 January) and is known as "striking a combined MFO balance."

However, in view of the far-flung network of the bank system and of the existing conditions of postal and telegraphic communications, a fairly prolonged time (about two months) is required for complete reconciliation of the initial and contra interbranch transfers for the past year. During this period the interbranch transfers for the past year must be segregated from the transfers for the new year, since otherwise the latter transfers would pile up on the former and interfere with their complete reconciliation.

To avoid mixing the past year's interbranch transfers with the turnovers of the new year, and so as to be able to see the "striking of a combined MFO balance" for the past year, the following alternatively resource and liability accounts are introduced as of the first of the year (1 January): account No. 270 "Items for past year unreconciled per Head Office entries"; account No. 274 "MFO Contra for past year"; account No. 278 "MFO Initiated for past year"; and account No. 279 "Settlements with Head Office on Contra MFO for past year". The transfers of the balances as of 1 January from the MFO accounts for the current year to the corresponding MFO accounts for the past year is done mechanically on the basis of the proof sheets for 2 January without bookkeeping entries [in the journal-ledger].

Thus in the new year the accounts reflecting the interbranch transfers for the current year begin without opening balances. On the other hand, however, the accounts showing the interbranch transfers for the past year do have opening balances. During the first months of the new year (until the condition of net balance on MFO is attained) special attention must be paid to the dates of advices when making the contra entries and reconciliations. Advices dated during

the new year at branch A pass under the ordinary procedure to accounts No. 263 in branch A and 264 in branch B respectively, and on reconciliation respectively to accounts No. 265, 264 and 266. Advices dated during the past year at branch A (concluding or original turnovers) are reflected on account No. 274 "MFO Contra for past year".

The bank establishments receive separate tabulograms for the past year and current year until the combined balance is struck on MFO. The result of the reconciliation of past-year tabulograms is reflected on the corresponding accounts showing past-year interbranch transfers, while the result of reconciliation of tabulograms for the new year is reflected in the usual way on the MFO accounts for the current year.

When all the initial turnovers for the past year for all branches have been completely reconciled with the contra turnovers, i.e., when there are no balances left in the consolidated balance sheet of the bank on the accounts showing the "contra" and "unreconciled" MFO for the past year, while the balances in the accounts showing respectively the "initial" MFO and the MFO "reconciled" with the tabulograms are equal, then the work of reconciling the MFO turnovers for the past year may be considered finished, since the balances of the MFO accounts on the consolidated balance sheet are completely in equilibrium and balanced. The MFO accounts for the past year have thus played their parts by showing that the interbranch transfers for the past year have been reconciled; and these accounts are therefore closed. For this purpose the bank branches debit (or credit) accounts No. 278 and 279, credit (or debit) accounts No. 263, and send the advices to their respective Regional Offices. All the balances of

the closed MFO accounts for the preceding year are concentrated in the Regional Offices, which then transfer them to the central accounting department at the Head Office. By making the contra entries for the branches (to the debit or credit of account No. 264, as the case may be) the central accounting department of the Head Offices gathers into its own hands all the balances of the MFO accounts for the past year, which must balance. After assuring itself of the complete identity of these balances, now concentrated at the Head Office, the central accounting department closes these accounts by the entry:

Debit account No. 278 "MFO Initiated during past year";
Credit account No. 279 "Settlements with Head Office for MFO
Contra during past year".

The other two accounts reflecting the MFO for the past year are closed out even earlier, at the localities, in the bank establishments. Consequently the MFO accounts for the past year exist only during the period from the beginning of the year until the combined MFO balance is struck. These accounts, while they have an opening balance, figure in the annual proof sheet without a closing balance, since they are closed during the course of the year.

10. THE CLEARING DEPARTMENT

In Moscow and Leningrad, where there are a number of city branches of the State Bank, establishments of other banks (special banks), and savings banks, the settlements between the local credit institutions are cleared through the clearing department organized at the Chief City Office of the State Bank.

The tasks of the Clearing Department are to speed up and simplify the mutual settlements between its members, which are credit institutions located in the same city; the mutual offset of claim and counterclaim by and against its members; and settlement with each member, without payment in cash, after such offset of claim and counterclaim.

Each member has its duly empowered representative at the Clearing Department. Each representative delivers to all other representatives the documents relating to the credit institutions they respectively represent, and accepts from them in turn the documents relating to his own credit institution. The representative keeps a settlement sheet and brings down the final balance of mutual settlements.

The representatives of the local credit institutions assemble daily at the Chief City Office of the State Bank for the clearing.

Each representative has with him the documents of his institution destined for the other local credit institutions, together with a schedule of the documents, prepared for each member. Credit orders are prevalent, i.e., dispositions issued to other local credit institutions instructing them to credit items to the accounts kept with them by their customers. These dispositions are issued as a result of payment received for a local collection in favor of a supplier whose account is kept in another local credit institution, or as a result of the payment of a payment order, crossed check, etc. in favor of an organization whose account is kept in another local credit institution.

The bank presenting such a credit order to another bank makes the following entry in its own books: debit account of its client; credit

account No. 224 "Settlements among credit institutions in same city". The clearing members accepting credit orders addressed to them in turn make the following entries in their books: debit account No. 224, credit account of their customer involved.

Debit orders to local credit institutions -- i.e., instructions to debit accounts of their clients -- are encountered much more rarely. This is entirely natural, for as a rule a bank transaction commences with a debit to a client's account. The debit orders routed through the Clearing Department include checks certified by a local bank and checks from limited checkbooks accepted for deposit by the credit institutions in question and credited by them (see page 149) to the income accounts of transport agencies kept with the, or to the account of Narkomsvyazi.

Bills (of a supplier) or payment orders (of a payer) to be routed through the Clearing Department are made out on special fan-folds, and the bank places its own signatures and seal on one of the copies, with a notation directing transfer through the Clearing Department. Credit instructions through the Clearing Department are embodied in orders of the member concerned, while debit instructions are in the form of receipts. All documents are stamped "Through Clearing Department". If a document accepted by the Clearing Department cannot be executed, by the credit institution whose representative has accepted it, owing to lack of funds in the client's account, or does not concern the institution, it is returned in the ordinary course of business through the Clearing Department to the bank that delivered it.

11. THE SETTLEMENT SHEET AND THE LIQUIDATION OF CLEARINGS

Each representative of a local credit institution keeps a settlement sheet of the form shown below. On this sheet he enters the documents to be presented by his bank and delivered according to the schedules to the various credit institutions addressed. Then, during the period when the Clearing Department is open for business, the representative of each member accepts documents according to the schedules addressed by other members for presentation to his own credit institution and also enters them on the same settlement sheet. On each line of the settlement sheet are entered all the mutual settlements with one of the clearing members, together with the result of the offset of all these settlements, which is termed the partial liquidation [with that member].

The final result of the settlements of a member with all the other members, i.e., with the Clearing Department as a whole, is established from the totals shown on the settlement sheet. This result is called the liquidation, and may either be in favor of the member -- "to receive" -- or not in its favor -- "to pay". In the former case the Chief City Office of the State Bank credits the corresponding amount to the member's account (debit account No. 224, credit account No. 263, if a city establishment of the State Bank is involved, or one of the accounts of Section XIII of the balance sheet, if it is some other credit institution). In the latter case the Chief City Office Section XIII balance-sheet accounts.

Let us consider the settlement sheet presented below and the journal-ledger entries connected with it (see table on page 234).

FORM 45

Date - 15 September 1945

Settlement Sheet

Member:
Baumanskoye branch
of state bank

To Receive					To Pay				
Partial Liquidation	Checks and Receipts Delivered by Member	Orders returned by members for session of clearing department For payment on day following session of clearing department	For payment on day of session of clearing department	Orders Received and processed for account of Clients	Name of member, serial number and Transit number	Orders		Checks and receipts Received	
						Delivered	Readressed by members for the session of clearing department	Received	Returned by members for session of the clearing department
					1. 19101 Moscow City Regional office of State Bank	—	—	—	—
					2. 20101 Baumanskoye Branch of State Bank :	—	—	—	—
					3. 20103 Dzerzhinskoye Branch of State Bank	18,300	—	2,200	12,500
	1,800		6,200		8. 20112 Krasnopresnenskoye Branch of State Bank	4,000	—	3,000	—
15,000	—		22,000		12. 20107 Leninsk Branch of State Bank	15,000	—	1,400	—
28,000	2,400		42,000		ETC.				
					31. 1894 Prombank	29,000	—	—	—
2,000	3,000		28,000		32. 1896 Torgbank	50,000	—	—	45,000
	1,000		4,000		ETC.				
					54. 194300 Kirovsk Branch of Mosgorbank	5,800	—	—	—
9,000	—		14,800		60. 194300 Leninsk Branch of Mosgorbank	7,000	—	—	4,000
			3,000						

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54,000 8,200 — — 120,000

TOTAL TO RECEIVE

Balance (To Pay)

R. 128,200

R. 7,500

135,700

The Representative (Signature)

The Chief of the

Clearing Department (Signature)

129,100 — 6,600 — 61,500

TOTAL TO PAY R. 135,700

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It will be seen from this settlement sheet that the representative of the Baumansk branch of the State Bank delivered, per schedules, to the representatives of other credit institutions, checks drawn on them to a total amount of 8200 rubles and orders to credit their clients' accounts in the total amount of 129,100 rubles. This branch made the following entry in its books:

Debit account No. 224	R. 8200	Debit clients' accounts	R. 129,100
Credit clients' accounts		Credit account No. 224	

The Baumansk branch received, from the representatives of other credit institutions, orders to credit its own clients' accounts for a total of 120,000 rubles and checks for payment in the total amount of 6600 rubles. After audit of all documents accepted, the branch makes the following entries:

- (1) debit account No. 224, credit clients' accounts, 120,000 rubles; and
- (2) debit clients' accounts, credit account No. 224, 6600 rubles.

The settlement position of the Baumansk branch with each of the other local credit institutions is fixed on the corresponding line of the settlement sheet in the "partial liquidation" column. Thus the Baumansk branch is indebted to three members, while four members are indebted to it. It does not settle with each member separately, however, but with the Clearing Department, paying it the sum of 7,500 rubles, which is the difference between the sum total of its debts [on balance] to other credit institutions (61,500 rubles) and the sum total of the amounts due to it [on balance] by other members (54,000 rubles). By making the additional payment of 7,500 rubles the Baumansk branch balances its clearing account and closes account No. 224, which thus has no balance remaining.

On the basis of the completed settlement sheets of the separate members, the net result of the liquidation of the settlements is drawn up and the necessary entries made. Assume that on 15 September the following clearing balances were shown by the settlement sheets of the several members:

	Name of Member	To Pay	To Receive
2.	Baumansk Branch of State Bank	7,500	-
3.	Dzerzhinskoye Branch of State Bank	-	4,000
12.	Leninsk " " " "	8,000	-
	etc.		
31.	Frombank	-	11,500
32.	Torgbank	"	6,000
30.	Leninsk Branch of Mosgorbank	6,000	-
	etc.		
	Total	21,500	21,500

As we have seen, the total of all payments by members is equal to the total of all receipts by members, inasmuch as the amounts to be paid by some of the credit institutions are credited to other clearing members. The Chief City Office of the State Bank, at which this clearing takes place, makes the following entries on the basis of the results of the liquidation of settlements:

(1) Debit account No. 263

for Baumansk branch 7,500
 for Leninsk branch. 8,000
 Debit account No. 194 Moscow City Bank. 6,000
 Credit account No. 224. 21,500

(2) Debit account No. 224. 21,500

Credit account No. 263

for Dzerzhinskoye branch 4,000
 Credit account No. 192 of Prombank 11,500
 Credit account No. 195 of Torgbank 6,000

Consequently account No. 224 balances every day at the Chief
 City Office as well.

12. THE RAYON SETTLEMENT OFFICES (RRK)

If economic conditions in a certain Rayon are such that there
 are no grounds for organizing a branch of the State Bank there, a
 Rayon Settlement Office (RRK) may be opened to serve the Rayon with
 a limited range of banking operations and operate under the immediate
 direction and supervision of the nearest branch of the bank, to which
 it is subordinated. The branch that opens an RRK, pursuant to auth-
 orization of the Head Office, and directs and controls its activities,
 is termed the sponsoring branch. The RRK (of which there are rela-
 tively few) carry out only liability operations i.e. they make no
 loans or other transactions involving resource accounts except that
 they do not carry clearing accounts for clients. They make no loans,
 have no direct relations with all other State Bank establishments,
 cannot carry out interbranch transfers, cannot issue or receive

instructions directly to or from other branches. The RRK are in direct contact only with their sponsoring branches and only through them do they receive and send out instructions from and to other points. They record their operations on a balance sheet which is abbreviated by comparison with that generally in use throughout the bank.

The RRK balance sheet embraces: accounts reflecting the cash execution of the budget; current accounts of budget institutions, and deposits; current accounts of kolkhozes, social insurance, trade-unions, public organizations, and the Gosstrakh; cash transactions; accounts of Narkomsvyazi and savings banks; building accounts, bank operating inventories and supplies, capital expenditures, accountable items, income and expense of the RRK, unpaid transfers, miscellaneous debtors and creditors, indivisible kolkhoz funds, and, finally, settlements with the sponsoring branch. In addition, on the instructions of that branch, the RRK balance sheet may be broadened to include liability accounts of Section VII of the balance sheet to reflect clearing subaccounts in them. On the other hand, all the accounts for the cash execution of the budget are not in use in all RRK, since not all RRK carry out all of the operations in this field of banking. A definite field of activity is established by the sponsoring branch for each RRK, in accordance with the economics of the Rayon served, the preparation and qualification of the RRK personnel, etc. An RRK does not do settlement operations, except for a few local settlements for its clientele and settlements for the budget institutions whose current accounts it carries, etc. The RRK report to their sponsoring branches, and send them monthly a proof sheet, a report on the cash execution of the state budget (income and expense), a balance proof sheet for the account "Other debtors and creditors", an execution

sheet for the estimates of administrative and management expense, etc. On the 1st and 16th of the month they send a balance control sheet arranged as prescribed by their sponsoring branches.

Operations are formalized and recorded in general by RRK in much the same way as in the small branches. In this they are guided by the rules and instructions currently in force in the bank.

We shall dwell only on such RRK operations as are distinguished from the corresponding operations of branches. These include: (1) clearing subaccounts; (2) making settlements for local budget institutions; and (3) settlements with the sponsoring branch. The operations for the cash execution of the state budget are also somewhat different in a number of RRK.

13. PECULIARITIES OF THE OPERATIVE AND ACCOUNTING FORMULATION OF CERTAIN RRK OPERATIONS

Clearing Subaccounts.

Clearing subaccounts for income and for expense may be kept, at the instructions of the sponsoring branch. For instance, the Raypotreb-
soyuz (RPS) whose clearing account is kept in the sponsoring branch opens a clearing subaccount in an RRK for its local base, and the receipts of that base must be deposited in that subaccount. On the application of the RPS the sponsoring branch issues its dispositions to the RRK to open such a clearing subaccount for income and indicates the amount at which the accumulated balance therein should be transferred to it -- the branch -- for credit to the main clearing of RPS. Clearing subaccounts for expense are likewise opened only on instructions of the sponsoring branch. Assume that "Oblumka" wishes to supply

its mill, located in the RRK's Rayon, with the amounts it requires for expense. At the client's instructions, the sponsoring branch transfers to a clearing subaccount for expense, at the RRK, a certain sum, from which the local mill draws funds for its expenses. Clearing subaccounts are opened under the same balance-sheet accounts as the main clearing accounts (in the sponsoring branch).

SETTLEMENT OPERATIONS

Local settlements among RRK clientele are made only on payment orders or crossed checks issued by the payer, and only if both payer and payee have their current accounts in the same RRK. Such local settlements are accomplished by the transfer of the amounts involved from one current account to the other.

The settlements of local budget institutions, whose funds the RRK keeps and records, with out-of-town suppliers, are somewhat more complicated. Bills for collection reach the sponsoring branch through the supplier's branch. The sponsoring branch records them (as usual) on account No. 414, and then prepares a special "proposal" (in triplicate) for each bill, and sends it to the RRK with the invoice-account. The RRK sends the payer one of its two copies. The "proposal" shows the names of payer and supplier, number and amount of the invoice account. If no refusal to accept is received from the payer within a 3-day period (which in this case coincides with the period for payment), the amount of the "proposal" is charged to its current account and credited to the sponsoring branch, which in turn transfers it, under routine procedure, to the branch that forwarded the documents for collection. If acceptance is refused, the RRK notifies the supplier and the supplier's branch by telegraph, and

also advises its own sponsoring branch, which transfers the documents, as a matter of routine, to card file No. 4. If the payer has no funds, the RRK notifies the sponsoring branch, which in turn advises the supplier's bank under routine procedure (transfer of the documents to card file No. 2).

MUTUAL SETTLEMENTS BETWEEN RRK AND SPONSORING BRANCH

These mutual settlements are reflected on the alternatively resource and liability account No. 267 "Settlements between branches and rayon settlement offices" (The field establishments of the State Bank settle with the field cas-offices through the analogous alternatively resource and liability account No. 268 "Settlements between sponsoring field branches and the field cash-offices of the bank"). Supervision over this account and the reconciliation of turnovers thereon are centralized in the main accounting department of the sponsoring branch, which keeps a detail account for each RRK and effects reconciliation on the basis of the reported data for initial and contra turnovers. Strict documentation is prescribed for this account as for MFO, i.e. the use of certain fanfolds of cards has been introduced for the separate formulation of mail debit and credit advice-orders, and for debit and credit telegrams. The contents of the corresponding cards are analogous to the contents of the MFO advice forms. The set cards for mail transfers consists of three copies, an operative card, a report contra card and a report copy card.

The the entry originates with the RRK, all three cards are sent by it with its daily report sheet (abstract) on the above-mentioned account to the head bookkeeper's office of the sponsoring branch, which office sends the first and second copies to the operations group

for execution, and places the third in the card file (see below). On the same day the operations group of the sponsoring branch makes the contra entry from the first copy of the advice, and sends the second copy, formalized by signatures, back to the chief bookkeeper's office, where it is reconciled with the third copy that has remained there. The chief bookkeeper's office insists on having the contra entries made on the same day and not delayed. For mail transfers initiated by the sponsoring branch, the third copies of the cards arrive in analogous fashion in the chief bookkeeper's office from the operations groups, and are subsequently reconciled with the second copies dispatched by the RRK, i.e. with the contra entries made by the RRK.

Special sets of special cards are used for telegraphic transfers. The third copy is sent by the originating side to the chief bookkeeper's office of the sponsoring branch and is subsequently reconciled with the contra card sent in by the contra side and specially prepared by it (on the basis of the telegram received).

The chief bookkeeper's office keeps detail accounts (staffels) for each RRK and makes sure that the aggregate of these detail accounts agrees with the balance sheet, checks the abstracts of account No. 267 to be sent to the RRK, reconciles the transfers on this account, proved the unreconciled cards with the staffels for each of the card files for this account.

Four card files are kept for account No. 267 (with a staffel for each of them):

1. debit accounts in the balance sheet of the sponsoring branch
2. credit accounts
3. debit accounts in the report sheet (on the balance sheet) of RRK.
4. credit accounts

The cards for both initiated and contra turnovers are kept in each of these card files. Consequently the files are distinguished not in this but by another characteristic: the first two files itemize the account in question on the balance sheet of the sponsoring branch, while the last two itemize it on the balance sheet (report sheet) of the RRK. Thanks to this feature, the card files are able to show up the items that have been entered by only one side (RRK or the sponsoring branch), but still not reflected by the contra side. The detail accounts for the RRK [kept by the branch] and the report-sheet abstract received from RRK will obviously differ by the amount of these items.

Each file has two parts, one for unreconciled cards and the other for reconciled. We give an example:

Balances of Unreconciled cards

In Card File No. 1	18,000
" " " No. 2	13,000
" " " No. 3	14,000
" " " No. 4	16,000

The balance on the detail account for the RRK involved, kept by the sponsoring branch, is debit R. 5,000, while the last abstract received from RRK shows a credit balance of R. 2,000. The difference between the figures of branch and RRK ($5,000 - 2,000$) is R. 3,000. The same difference is obtained by subtracting R. 29,000, the sum of the unreconciled cards in the credit card files ($13,000 + 16,000$) from R. 32,000, the sum of the unreconciled cards in the debit card files ($18,000 + 14,000$). This coincidence shows that the figures of the branch and RRK are both correct, and after all orders in transit have

been duly entered by the opposite side, or addressee, the mutual settlements are completely reconciled.

BUDGET OPERATIONS

The cash service of the Sel'sovet is handled entirely by the RRK and is reflected in account No. 11 "Local Budget funds". As for the higher-level local budgets of Rayons or Oblasts, as well as Union and Republic budgets, some RRK accept the income flowing in for these budgets and send the corresponding documents to their sponsoring branches daily with a special report. The income flowing in for such higher-level budgets is credited in such RRK to the account of the sponsoring branch. Such RRK may make payments for the account of higher-level budgets only on special instructions issued each time by the sponsoring branch.

The RRK that keep all the accounts for the cash execution of the state budget execute and record the corresponding operations as a matter of routine procedure.

CHAPTER VIII

CASH OPERATIONS

1. ORGANIZATION AND FUNCTIONS OF THE CASHIER'S OFFICE

The State Bank is the cash center of the national economy. Into it there converge and flow together the free cash resources of all state and cooperative enterprises, organizations and institutions; in it as well are concentrated the cash deposits in favor of the state budget, and also the free cash funds of the savings banks and the other credit institutions of the USSR, together with the large deposits of private persons. On the other hand, the State Bank supplies all state, cooperative, budgetary and credit institutions with the cash they require (up to the limit of the funds held in the State Bank by the respective clients involved) for paying their workmen and other employees, for small purchases, petty expenses, etc. Only a relatively small place remains for cash settlements, as we have seen, (see Chapter V), given the system of settlements now in force in our country, with all the colossal extent of clearing settlements through the State Bank that is inherent in that system. Nevertheless the cash turnovers of the State Bank, being as it is the central cashier of our national economy, are in their absolute magnitude very great.

In the last analysis the cash operations of the State Bank reflect the fulfillment of the plan of goods turnover, mobilization of the monetary resources of the population, and cash payments made

to the population. The cash operations of the bank are linked in the most intimate way with the credit plan, which, in turn, constitutes a component part of the general national economic plan. The cash operations, reflecting the ebb and flow of cash funds through divers channels into the coffers of the bank, are directly connected with the issue activities of the bank.

It is thus entirely natural that the correct and efficient organization of the cash operations of the bank should be of such exceptionally great significance for the whole national economy. Good work in the cashier's department not only assures the intactness and proper utilization of the socialist property in the form of the immense resources in money and securities that circulate within the bank, but also help to reduce the aggregate requirements for cash by improving the gathering of monetary resources into the bank, by accelerating their turnover, by establishing a calendar plan of issuing funds for wages, etc. The cash work of the bank cannot be left to laissez faire, but must be planned and regulated in accordance with that plan. The cash operations are entrusted to the Cash Department of the bank, which in practice is termed the "cash office".

The functions of the cash office consist in the organization of the acceptance, safeguarding, payment and shipment of cash, foreign currency and other valuables, securities and documents; and in the recording of all such cash and other similar items received and disbursed. Cash operations should be set up in such a manner as

to assure maximum speed and efficiency in their completion, complete safety of the valuables passing through the cash office, distinct and unambiguous distribution of the work among the employees so as to establish the area of personal responsibility of each of them, and the possibility of quickly finding and auditing all items of money and valuables held in the cash office.

The Cash Department consists of the vault and the operational cash offices. The vault is the principal depository of money and valuables, and usually does not conduct direct transactions with clients. The operational cash offices receive and deliver money and valuables from and to the clients, and are located in specially separated and partitioned rooms of the Operations Department.

The number of operational cash offices depends on the volume and character of the branch's activities. The work is distributed variously among the cash offices: some of them take in money and valuables for certain transactions, while others disburse money and valuables. Some may handle the operations with a specified clientele and are immediately connected with the corresponding operations brigades that deal with that clientele. A special operational office is customarily organized to handle receipt and delivery (together or separately) of foreign currency and precious metals. Each operational cash office connected with an operations brigade (or group) is controlled both by this brigade and by the vault (or chief cash office).

The manager of the branch and the chief bookkeeper bear the responsibility for the establishment of a strict order and organi-

zation of the control over cash work. The chief bookkeeper is also responsible for proving the cash office books against the balance sheet. The senior cashier is in immediate charge of the cash work and is responsible for its set up. In addition, there are also chief cashiers in the Oblast Regional Offices, who organize and inspect the cash work and the management of the cash offices in all the State Bank establishments of the Oblast or Kray. The Chief Cashier of the Head Office plays the same role with respect to the management of the cash offices throughout the whole bank system. Cash office employees are personally responsible for the safety of the money and valuables taken in by them, and for the correctness of the operations transacted, and this responsibility is embodied in a special undertaking executed by each of them. The struggle against the embezzlement and misappropriation of socialist property and the reliable safeguarding of this property is of urgent importance in the cash work of the bank.

2. OPERATIONAL CASH OFFICES

Each cash office performs only those functions assigned to it, and receives or delivers only on written orders (or documents replacing them) for each single transaction. Some uniform mass operations are carried out on the basis of temporary tickets, orders, etc., valid only to the end of the day, but these are then embodied in summary orders.

Each operations cashier receives from the vault at the beginning of the day an advance of the necessary funds and corresponding

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valuables required for his operations, for which he receipts in the senior cashier's control book. At the close of the operating day he accounts to the senior cashier, and delivers to him the documents and money, which are likewise entered in the same control book.

All the documents on which the operations cashier receives and delivers money and valuables (individual and summary orders) must first invariably pass through the appropriate operations brigade. Clients are warned by a notice posted in front of the cash office that all cash documents must first be presented to that brigade.

In the operations brigade the cash documents are first verified and then entered in the (control) cash receipts or cash disbursements journal, signed (according to the amount involved, by the operations clerk and auditor, or by the chief bookkeeper as well), and then dispatched by messenger, against receipt, to the cash office. The customer to receive the money is given a control stub or number, the other half of which is pasted on the document. Only a single copy of the cash journals is usually kept. In branches with machine accounting they are kept in duplicate. The copy can easily be separated into strips, each of which concerns the separate detail account involved in the transaction. It is usually taken apart in this way at the end of the day. The strips are used to post the items to the credit of the clients accounts, and are then attached to the customer's statement of account. The

first copy of the cash journal is proved against the cash and is then used as a summary cash receipt or disbursement posting order for entry in the general journal. The operations cashiers have sample signatures of the bank officials authorized to sign cash documents, and must check the signatures on incoming documents against these samples. The operations brigades similarly have a sample signature of the operations cashier that serves them and check his signature on the documents passing through.

If the receipt of money is accompanied by the delivery of valuables, or vice versa, the cashier first takes in the money or valuables, and then makes delivery. Fictitious turnovers (i.e., those unaccompanied by the actual deposit or receipt of money) are not permitted at the cash office.

After the close of operations, the operations cashier proves his balances of cash and valuables against the control cash journal of the operations brigade, and, for the non-balance sheet accounts, against the general journal, and then delivers such balances to the senior cashier with a report certificate showing the number of documents and the totals of receipts and deliveries and disbursement for the day. This certificate is certified by the operations brigade concerned.

From the cashiers' certificates the senior cashier draws up a summary certificate, makes summary entries of these totals in the cash book, and brings down the new balance of the total turnover cash to be carried forward.

From the receipt and deliver documents for the non-balance sheet accounts he determines the balances of the several valuables for the following day and enters them in the vault book.

3. THE VAULT

Funds of the reserve and fractional currency stocks, union dues, stamps, checkbooks, shipments of foreign currency and precious metals, and the like, are accepted and delivered by the vault only on written orders of the operations brigades or the chief book-keeper.

To facilitate audit of the vault operations, the valuables and money kept in it are arranged by the balance sheet and non-balance sheet accounts on which they are recorded. On the envelopes, packages, boxes with valuables and money, it is precisely noted what valuables they contain, and in what amount, together with day, month, year, signature of the cash office employee responsible for the valuables, and the number of the balance sheet or non-balance sheet account that controls them. The packages of currency made up by the bank establishment, each containing 1,000 bills, and (or their parts and counterfoils), are subjected to a control (duplicate) recount.

Some valuables are recorded by quantity, in the vault, instead of in monetary terms; others are recorded at arbitrary values; and still a third category is recorded both by quantity and value. Thus the precious metals are recorded by weight and assay, without conversion

into monetary terms, and foreign currency in their respective units (dollars, pounds, francs) without conversion into their equivalents in Soviet currency. The quantitative accounting for foreign currency and precious metals is due to the fact that the cash office employees are responsible for the complete intactness of these valuables without reference to their balance sheet (monetary) valuation. Checkbooks and trust receipts of clients are carried at the arbitrary valuations of 1 ruble per piece.

All documents on which the vault and operational cash offices have carried out transactions during the day remain in the vault. They are collected and bound together into a packet by a tape passed through holes in them, and the number of pieces and total amount is shown on the cover. Documents relating to administrative and management expense, capital construction of the bank, and foreign operations, are bound together into three separate packages to facilitate the control and documentary audit of these operations.

Valuable mail is dispatched and received by a cash office employee. Valuables are shipped on orders of the operations sections or of the bookkeeper's office, together with the attached schedules. The valuables are delivered to the post office with a duplicate list, one copy of which is receipted by the post office. Precious metals, foreign currency and money are forwarded through the bank's groups for collection and transport of valuables.

Postal notices of the arrival of mail containing valuables addressed to the bank are entered by the bookkeeper's office in a

special book for registration of postal notices. The cash office employee detailed to accept mail at the post office is given a separate authorization for each time. The operations brigade or the head bookkeeper draw up the additions posting order on which valuables are taken into the vault. The number and date of the additions posting order are noted on the schedules or inventories and covering statements.

4. THE CASH BOOK AND THE VAULT REGISTERS

The State Bank strictly distinguishes the turnover cash, or cash on hand, from the reserve currency stocks. Cash on hand means the cash assigned for transactions with the clientele served by the bank. The movement of cash on hand is reflected on the balance sheet on account No 18 "Cash", for which the cash book is kept, showing the total daily receipts and disbursement of cash, together with the number of documents and the balance of cash on hand carried forward, giving not only its grand total in words and figures, but also broken down by forms of money. The accuracy of the balance is certified by the signatures of the manager, chief bookkeeper and senior cashier.

The method of keeping the cash book may be seen from the following example: in a certain branch, the cash balance on 3 October was 205,304 rubles 80 kopeks.

In the certificates of the operational cash offices, the transactions for 3 October were expressed as follows: